

In the opinion of Baker & Daniels, Indianapolis, Indiana ("Bond Counsel"), under existing law, interest on the Bonds (as hereinafter defined) is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds for federal income tax purposes. Such excludability is conditioned on continuing compliance by the Bond Bank and the Qualified Entity (each as defined herein) with certain tax covenants described herein. In the opinion of Bond Counsel, under existing law, interest on the Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana inheritance tax and the Indiana financial institutions tax. See TAX MATTERS and Appendix C.

\$29,275,000
INDIANA BOND BANK
SPECIAL PROGRAM BONDS, SERIES 2004 D
(Northern Indiana Commuter Transportation District Project)

Dated: Date of Delivery

Due February 1, as shown on the inside cover.

The Indiana Bond Bank ("Bond Bank") Special Program Bonds, Series 2004 D (Northern Indiana Commuter Transportation District Project) (the "Bonds") are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry-only form, in the denomination of \$5,000 and integral multiples thereof. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Bonds. Interest on the Bonds is payable on February 1 and August 1 of each year commencing August 1, 2005 and such interest, together with the principal of the Bonds, will be paid directly to DTC by The Bank of New York Trust Company, N.A., as trustee (the "Trustee") under a Trust Indenture, dated as of November 1, 2004 (the "Indenture"), as more fully described herein, so long as DTC or its nominee is the registered owner of the Bonds. The final disbursement of such payments to the Beneficial Owner of the Bonds will be the responsibility of the DTC Direct Participants and the Indirect Participants, all as defined and more fully described herein under "THE BONDS - Book-Entry-Only System."

Payment of the principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued upon the delivery of the Bonds by Financial Guaranty Insurance Company. See "BOND INSURANCE" and Appendix D.



The Bonds are authorized by a resolution adopted by the Board of Directors of the Bond Bank and are issued under and secured by the Indenture, all pursuant to the laws of the State of Indiana (the "State"), particularly Indiana Code 5-1.5 (the "Act"), for the purpose of providing funds to purchase revenue bonds (the "Qualified Obligations") of the Northern Indiana Commuter Transportation District (the "Qualified Entity") which is authorized under Indiana law to issue the Qualified Obligations to fund the cost of capital projects, including a centralized traffic control system. The Qualified Obligations are payable by the Qualified Entity from (i) Situs Revenues (as defined herein) on deposit in the Commuter Rail Service Fund (as defined herein) and dedicated to the Qualified Entity on a parity with the Prior Notes (as defined herein) and (ii) moneys on deposit in the Electric Rail Service Fund (as defined herein) and dedicated to the Qualified Entity. The principal of and interest on the Bonds are payable from the proceeds of Qualified Obligation Payments (as defined herein) and other moneys held under the Indenture.

The Bonds maturing on February 1, 2021 and February 1, 2022 are subject to optional redemption prior to maturity on and after February 1, 2010 at par.

The Bonds maturing on and after February 1, 2016, excluding the Bonds maturing on February 1, 2021 and February 1, 2022, are subject to optional redemption prior to maturity on and after February 1, 2015 at par.

The Bonds are payable by the Bond Bank solely from the revenues and other funds of the Bond Bank pledged therefor under the Indenture. Such revenues and funds include payments by the Qualified Entity on the Qualified Obligations ("Qualified Obligation Payments"). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS AND THE INTEREST ON THEM ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY OUT OF THE TRUST ESTATE (AS DEFINED HEREIN) PLEDGED THEREFOR UNDER THE INDENTURE, AS MORE FULLY DESCRIBED HEREIN. THE BONDS AND THE INTEREST PAYABLE THEREON DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OF INDIANA (THE "STATE") OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE QUALIFIED ENTITY, UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE QUALIFIED ENTITY. THE BOND BANK HAS NO TAXING POWER.

The Bonds are being offered, when, as and if issued by the Bond Bank and received by the Underwriters subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Baker & Daniels, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by its General Counsel, Barnes & Thornburg LLP, Indianapolis, Indiana, for the State of Indiana by its Disclosure Counsel, Krieg DeVault, LLP, Indianapolis, Indiana and for the Underwriters by their counsel, Ice Miller, Indianapolis, Indiana. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about November 16, 2004.

Citigroup



Date: October 29, 2004

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

\$29,275,000
INDIANA BOND BANK
SPECIAL PROGRAM BONDS, SERIES 2004 D
(Northern Indiana Commuter Transportation District Project)

| Maturity (February 1) | Principal Amount | Interest Rate | Yield | Price | Maturity (February 1) | Principal Amount | Interest Rate | Yield | Price |
|--------------------------|---------------------|------------------|-------|----------|--------------------------|---------------------|------------------|-------|----------|
| 2006 | \$290,000 | 2.00% | 2.00% | 100.000% | 2015 | \$1,800,000 | 3.75% | 3.75% | 100.000% |
| 2007 | 1,355,000 | 3.00 | 2.11 | 101.908 | 2016 | 1,865,000 | 4.00 | 3.83* | 101.420 |
| 2008 | 1,400,000 | 3.00 | 2.41 | 101.808 | 2017 | 1,940,000 | 5.00 | 3.86* | 109.537 |
| 2009 | 1,440,000 | 3.00 | 2.65 | 101.382 | 2018 | 2,035,000 | 5.00 | 3.95* | 108.745 |
| 2010 | 1,485,000 | 3.00 | 2.90 | 100.477 | 2019 | 2,140,000 | 5.00 | 4.03* | 108.046 |
| 2011 | 1,525,000 | 3.00 | 3.10 | 99.436 | 2020 | 2,245,000 | 5.00 | 4.11* | 107.353 |
| 2012 | 1,575,000 | 5.00 | 3.36 | 110.416 | 2021 | 2,360,000 | 5.00 | 4.05† | 104.414 |
| 2013 | 1,650,000 | 5.00 | 3.50 | 110.616 | 2022 | 2,435,000 | 5.00 | 4.14† | 103.986 |
| 2014 | 1,735,000 | 3.65 | 3.65 | 100.000 | | | | | |

The Bonds maturing on February 1, 2021 and February 1, 2022 are subject to optional redemption prior to maturity on and after February 1, 2010 at par. The Bonds maturing on and after February 1, 2016, excluding the Bonds maturing on February 1, 2021 and February 1, 2022 are subject to optional redemption prior to maturity on and after February 1, 2015 at par.

*Yield to call on February 1, 2015 at par

†Yield to call on February 1, 2010 at par

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE BOND BANK OR BY THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, AND THERE SHALL NOT BE ANY SALE OF ANY OF THE SECURITIES DESCRIBED HEREIN BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAW. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE BOND BANK OR ANY OTHER PERSON SUBSEQUENT TO THE DATE AS OF WHICH SUCH INFORMATION IS PRESENTED.

UPON ISSUANCE, THE BONDS WILL NOT BE REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, AND SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$29,275,000

**Indiana Bond Bank
Special Program Bonds, Series 2004 D
(Northern Indiana Commuter Transportation District Project)**

INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover page, the other preliminary pages and the appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its \$29,275,000 aggregate principal amount of Special Program Bonds, Series 2004 D (Northern Indiana Commuter Transportation District Project) (the "Bonds"). The Bonds are authorized by a resolution adopted by the Board of Directors of the Bond Bank on October 12, 2004, and are issued under and secured by a Trust Indenture, dated as of November 1, 2004 (the "Indenture"), between the Bond Bank and The Bank of New York Trust Company, N.A., as trustee, registrar and paying agent (the "Trustee"), all pursuant to the laws of the State of Indiana (the "State"), particularly Indiana Code, Title 5-1.5, as amended from time to time (the "Act").

Use of Proceeds of the Bonds

The Bond Bank will purchase the Limited Obligation Revenue Bonds, Series 2004 (the "Qualified Obligations") issued by the Northern Indiana Commuter Transportation District (the "Qualified Entity") pursuant to a resolution adopted on September 17, 2004 ("Qualified Entity Resolution") by the Board of Trustees of the Qualified Entity ("Qualified Entity Board"), which is authorized under Indiana law to issue the Qualified Obligations to fund the cost of a railroad project (as defined in Indiana Code 8-5-15), including a centralized traffic control system including upgraded signal, fiber optics and modernized catenary with new conductors, poles or portal structures, mast arms and connectors and related financing costs ("Project"). The proceeds from the sale of the Bonds will be used (i) to purchase the Qualified Obligations of the Qualified Entity, (ii) to pay the premium on the municipal bond insurance policy securing the payment of principal of and interest on the Bonds when due; (iii) to acquire a debt service reserve fund surety bond ("Qualified Surety Bond") to satisfy the Reserve Requirement (as defined below); (iv) to pay a portion of the interest due on the Bonds on August 1, 2005; and (v) to pay all or a portion of the costs of issuance of the Bonds. On or before the issue date of the Bonds, the Bond Bank will have entered into a Qualified Entity Purchase Agreement ("Purchase Agreement") with the Qualified Entity governing the terms for the purchase of the Qualified Obligations of the Qualified Entity.

Security and Sources of Payment for the Bonds

The Bonds will be issued under and secured by the Indenture. The Bonds are limited obligations of the Bond Bank payable solely out of and secured by the Trust Estate (as described below). Neither the faith, credit nor taxing power of the State or any political subdivision thereof, including the Qualified Entity, is pledged to the payment of the principal of or interest

on the Bonds. The Bonds and the interest payable on them are not a debt, liability or loan of the credit of the State or any political subdivision thereof, including the Qualified Entity. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from all other obligations issued by the Bond Bank. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Bonds are secured by the pledge of the Trust Estate established under the Indenture (the "Trust Estate"), which includes (a) all right, title and interest of the Bond Bank in, to and under the Purchase Agreement and the Qualified Obligations; (b) all right, title and interest in any and all other property, real, personal or mixed, from time to time conveyed, mortgaged, pledged, assigned or transferred as additional security under the Indenture by the Bond Bank or by anyone on behalf of the Bond Bank; (c) the proceeds from the sale of the Bonds; and (d) all revenues held in the Funds and Accounts under the Indenture (except the Rebate Fund). All Bonds will be secured equally and ratably by all of the foregoing. The debt service reserve fund for the Bonds will be funded with the Qualified Surety Bond and will be subject to replenishment at the discretion of the Indiana General Assembly pursuant to Indiana Code 5-1.5-5, as described below. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Payment of the principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy (the "Bond Insurance Policy") to be issued, upon the delivery of the Bonds, by Financial Guaranty Insurance Company (the "Bond Insurer"). See "BOND INSURANCE" and Appendix D.

The principal source of payment on the Bonds will be the principal and interest payments received by the Bond Bank from the Qualified Entity under the Qualified Obligations. The principal of and interest on the Qualified Obligations are payable out of (i) the taxes levied upon the indefinite – situs distributable property of railroad car companies (the "Situs Revenues") and deposited in the Commuter Rail Service Fund (the "Commuter Rail Service Fund") established under Indiana Code 8-3-1.5-20.5 and dedicated to the Qualified Entity and (ii) funds on deposit in the Electric Rail Service Fund established under Indiana Code 8-3-1.5-20.6 ("Electric Rail Service Fund") and dedicated to the Qualified Entity (the "Electric Rail Service Fund Revenues," together with the Situs Revenues, the "Qualified Entity Revenues") as further described under the caption, "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Provisions for Payment of the Qualified Obligations." The Qualified Entity is the only commuter transportation district qualified to receive distributions from the Commuter Rail Service Fund and the Electric Rail Service Fund. See Appendix B.

The Bond Bank

The Bond Bank is a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power. The Bond Bank is governed by a Board of seven Directors, including the Treasurer of the State, who serves as Chairman Ex Officio, and the Director of the State Department of Financial Institutions, who serves as a Director Ex Officio and five additional Directors, each appointed by the Governor of the State.

The Act

Pursuant to the Act, the purpose of the Bond Bank is to assist "qualified entities," defined in the Act to include political subdivisions, as defined in Indiana Code 36-1-2-13, leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, and any organizations, associations or trusts with members, participants or beneficiaries that are all individually qualified entities. The Bond Bank provides such assistance through programs of, among other things, purchasing the bonds or evidences of indebtedness of such qualified entities. Under the Act, "qualified entities" include entities such as cities, towns, counties, other political subdivisions, school corporations, library corporations, special taxing districts, commissions, authorities and instrumentalities of the State and nonprofit corporations and associations which lease facilities or equipment to such entities.

The Official Statement; Additional Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The information contained under the caption "INTRODUCTION" is qualified by reference to this entire Official Statement, including the Appendices hereto. This introduction is only a brief description and a full review should be made of this entire Official Statement, including the appendices hereto, as well as the documents summarized or described in this Official Statement. The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. Certain terms used in this Official Statement are defined in Appendix E. Capitalized terms not defined in this Official Statement shall have the respective definitions assigned to them in the Indenture.

Information contained in this Official Statement with respect to the Bond Bank and the Qualified Entity and copies of the Indenture, the Qualified Entity Resolution and the Purchase Agreement may be obtained from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317) 233-0888.

It is the Bond Bank's current policy to provide its financial statements to the holders of its obligations, including the Bonds, upon written request. In addition, certain other information concerning the Bond Bank is available to the Trustee and holders of the Bonds pursuant to the Indenture. See "CONTINUING DISCLOSURE."

THE BONDS

General Description

The Bonds are issuable under the Indenture as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Each Bond will carry an original issue date of November 16, 2004, and will bear interest from the most recent Interest Payment Date on which interest was paid prior to the date of authentication of such Bond, unless the Bond is authenticated after a Record Date but prior to the related Interest Payment Date. Bonds

authenticated after a Record Date but prior to the related Interest Payment Date will bear interest from the related Interest Payment Date.

The Bonds will be issued in the aggregate principal amount of \$29,275,000, and will mature and bear interest as set forth on the inside cover page of this Official Statement.

For so long as the Bonds are registered in the name of The Depository Trust Company ("DTC") or its nominee, payments of the principal of, premium, if any, and interest on the Bonds will be paid only to DTC or its nominee. Interest on the Bonds will be paid on each Interest Payment Date by wire transfer to DTC or its nominee. Principal will be paid to DTC or its nominee upon presentation and surrender of the Bonds at the principal office of the Trustee. Neither the Bond Bank nor the Trustee will have any responsibility for the Beneficial Owner's receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant, of any payments of principal or interest on the Bonds. See "THE BONDS – Book-Entry-Only System."

If the Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing on the first Interest Payment Date after the Bonds are no longer so registered by check issued by the Paying Agent dated the due date and mailed one Business Day prior to each Interest Payment Date to the registered Owners as of the close of business on the most recent Record Date or by wire transfer to Owners of \$1,000,000 or more in principal amount of the Bonds upon written request of such owners. Principal will be payable on the maturity date of such Bond upon presentation of the Bond at the principal corporate trust office of the Trustee.

Optional Redemption

The Bonds maturing on February 1, 2021 and February 1, 2022 are subject to optional redemption prior to maturity on and after February 1, 2010 at par.

The Bonds maturing on and after February 1, 2016, excluding the Bonds maturing on February 1, 2021 and February 1, 2022, are subject to optional redemption prior to maturity on and after February 1, 2015 at par.

Notice of Redemption

Notice of any redemption, identifying the Bonds to be redeemed, will be given by the Trustee at least 30 days but not more than 45 days prior to the Redemption Date by mailing a copy of the redemption notice by registered or certified mail to the registered Owner of each Bond to be redeemed at the address shown on the Bond Register.

For so long as the Bonds are registered in the name of DTC or its nominee, the Trustee will send notices of redemption of Bonds only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for any Beneficial Owner's receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant, of any notices of redemption. See "THE BONDS – Book-Entry-Only System."

Redemption Payments

Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the redemption price of the Bonds subject to redemption, together with the accrued interest on the Bonds to the redemption date. After the redemption date, if sufficient funds have been deposited with the Trustee, interest will cease to accrue on the Bonds that have been called for redemption.

For so long as the Bonds are registered in the name of DTC or its nominee, redemption payments on the Bonds will be paid by the Trustee only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for any Beneficial Owner's receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant, of any redemption payments on any Bonds. See "THE BONDS – Book-Entry-Only System."

Selection of Bonds for Redemption

If fewer than all of the Bonds are to be redeemed, the Bonds will be redeemed only in whole multiples of \$5,000. For purposes of redemption, each \$5,000 of principal will be considered as a Bond. If fewer than all of the Bonds will be called for redemption, the principal amount and maturity of the particular Bonds to be redeemed will be selected by the Bond Bank. The Trustee will select the particular Bonds to be redeemed by lot within a maturity in such manner as the Trustee may determine.

For so long as the Bonds are registered in the name of DTC or its nominee, the Trustee will select for redemption only Bonds or portions thereof registered in the name of DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for selecting for redemption any Beneficial Owner's interests in the Bonds. See "THE BONDS – Book-Entry-Only System."

Exchange and Transfer

The Bonds may be transferred or exchanged at the principal corporate trust office of the Trustee, to the extent and upon the conditions set forth in the Indenture, including the payment of a sum sufficient to cover any tax or other governmental charge for any such transfer or exchange that may be imposed upon the Bond Bank or the Trustee.

If any Bond is mutilated, lost, stolen or destroyed, the Bond Bank may issue and the Trustee may authenticate a new Bond in accordance with the provisions therefor in the Indenture including an indemnity satisfactory to both, and the Bond Bank and the Trustee may charge the holder or Owner of such Bonds for its reasonable fees and expenses in connection therewith, including the cost of having a replacement Bond printed.

For so long as the Bonds are registered in the name of DTC or its nominee, the Trustee will transfer and exchange Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank, nor the Trustee will have any responsibility for transferring or exchanging any Beneficial Owner's interests in the Bonds. See "THE BONDS – Book-Entry-Only System."

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Bank or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or the Trustee, disbursements of such payments to Direct Participants will be the responsibility of DTC, and disbursements of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depositor). In that event, Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Bond Bank believes to be reliable, but the Bond Bank takes no responsibility for the accuracy thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds are limited obligations of the Bond Bank payable only out of the Trust Estate. The Indenture creates a continuing pledge of and lien upon the Trust Estate to secure the full and final payment of the principal of, and interest on, all of the Bonds. The Bonds and the interest on them do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof, including the Qualified Entity, under the constitution and laws of the State or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof, including the Qualified Entity. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act and the Indenture. The Bonds are issued and secured separately from any other obligations issued by the Bond Bank. The sources of payment and security for the Bonds are more fully described below. The Bonds are further secured by the Debt Service Reserve Fund funded with the Qualified Surety Bond. See "Debt Service Reserve Fund." The Debt Service Reserve Fund is subject to replenishment as provided in Indiana Code 5-1.5-5. Indiana Code 5-1.5-5 pertains to the requirement that, if there is a deficiency in a debt service reserve fund securing obligations of the Bond Bank, the Chairman of the Bond Bank must certify the amount of such a deficiency to the Indiana General Assembly for its consideration on whether to appropriate funds to restore such debt service reserve fund to the reserve requirement for that fund.

Under the Indenture, the Bonds are secured by a pledge to the Trustee of the Trust Estate, which includes (a) all right, title and interest of the Bond Bank in, to and under the Qualified Obligations to be acquired by the Bond Bank under the Purchase Agreement; (b) all right, title and interest in any and all other property, real, personal or mixed, from time to time conveyed, mortgaged, pledged, assigned or transferred as additional security under the Indenture by the Bond Bank or by anyone on behalf of the Bond Bank; (c) the proceeds from the sale of the Bonds; and (d) all revenues held in the Funds and Accounts under the Indenture (except the Rebate Fund). The payments with respect to the Qualified Obligations have been structured, as of the date of issuance of the Bonds, to be sufficient along with earnings thereon, and other money in the Funds and Accounts under the Indenture and the earnings thereon, to pay the principal of and interest on the Bonds when due.

The Qualified Entity and the Qualified Obligations

The Qualified Entity was established in 1977 pursuant to Indiana Code 8-5-15 (the "Qualified Entity Act") and is a distinct municipal corporation. The Qualified Entity was established in response to the threatened abandonment of South Shore passenger service, specifically to maintain and preserve commuter rail service between South Bend and Chicago. The Qualified Entity Act permitted counties to join or create a commuter transportation district

only until January 1, 1987. The Qualified Entity is the only commuter transportation district created under the Qualified Entity Act.

The Qualified Entity is currently governed by the eleven member Qualified Entity Board. The Qualified Entity Board is currently represented by two members each from St. Joseph County, LaPorte County, Porter County and Lake County. The Governor of the State appoints three members, one as a general appointment, one a passenger of the system and the final an employee of the Qualified Entity. The Qualified Entity Board elects a chairman, vice chairman, secretary and treasurer to serve for a one (1) year term. The Qualified Entity Board is authorized to issue bonds of the Qualified Entity which are payable from Qualified Entity Revenues. The Qualified Entity does **not** have the power to levy taxes.

From the proceeds of the Bonds, the Bond Bank intends to purchase and, upon purchase, will pledge the Qualified Obligations to the Trustee. The Qualified Obligations were authorized by the Qualified Entity Resolution and are payable from (i) the Situs Revenues in the Commuter Rail Service Fund on a parity with the Qualified Entity's Limited Obligation Revenue Notes, Series 2002, issued in the aggregate principal amount of \$9,900,000 and currently outstanding in the aggregate principal amount of \$1,600,000 (the "Prior Notes") and (ii) the Electric Rail Service Fund Revenues. The remaining maturities of the Prior Notes are December 30, 2004 and June 30, 2005. The Prior Notes bear interest at the rate 2.4% per annum. The proceeds of the Prior Notes were used to pay a portion of the costs of the Project. The Qualified Entity will use the proceeds of the Qualified Obligations to fund additional costs of the Project.

Certain information related to the Qualified Entity and the Qualified Obligation is set forth in Appendix B. On or before the date of the issuance of the Bonds, the Bond Bank will enter into the Purchase Agreement with the Qualified Entity to purchase the Qualified Obligations.

Provisions for Payment of the Qualified Obligations

The Qualified Obligations are payable out of the Qualified Entity Revenues.

The Situs Revenues are generated from a tax assessed by the Department of Local Government Finance (the "DLGF") on the indefinite-situs distributable property of a railroad car company used in the State at a rate based upon a blended, State wide property tax rate determined by the DLGF. See "Procedures for Collections of Qualified Entity Revenues." The receipts are collected by the Indiana Department of Revenue, placed in the Commuter Rail Service Fund and appropriated for distribution to commuter transportation districts upon approval by the Governor. The Qualified Entity is the only entity that receives funding from the Commuter Rail Service Fund. A commuter transportation district receiving such Situs Revenues may use them only for financing the district's long term capital needs. See Appendix B for information about the Qualified Entity and the Situs Revenues.

The Electric Rail Service Fund Revenues are generated from a tax assessed by the DLGF on the distributable property of railroad companies that provide service within a commuter transportation district and use electricity to power substantially all of its railroad passenger cars. The rate of the tax is based upon the average property tax rate imposed by taxing districts that are

located in any county in the State in which such a railroad company provides railroad services. The receipts are collected by the Indiana Department of Revenue, deposited in the Electric Rail Service Fund and distributed to those commuter transportation districts that have substantially all of their commuter rail transportation performed by electrically powered railroads. The Qualified Entity is the only entity that receives funding from the Electric Rail Service Fund. See Appendix B for information about the Qualified Entity and the Electric Rail Service Fund Revenues.

The Qualified Entity Act establishes the Commuter Transportation System Bond Fund (the "Qualified Entity Bond Fund") into which shall be deposited all Qualified Entity Revenues, including Situs Revenues from the Commuter Rail Service Fund and Electric Rail Service Fund Revenues from the Electric Rail Service Fund. Under the Qualified Entity Resolution, the Qualified Entity Bond Fund consists of three (3) accounts: (i) the Principal and Interest Account, (ii) the Reserve Account, and the (iii) the Excess Account. The Qualified Entity will deposit into the Principal and Interest Account from time to time a sufficient amount of the Qualified Entity Revenues to pay the principal of and interest on all outstanding bonds issued by the Qualified Entity and coming due in the next twelve (12) months (such deposit requirement, when coupled with the Qualified Entity Reserve Requirement (defined below) referred to herein as the "Bond Fund Requirement" as set forth in the Qualified Entity Act).

On the date of the issuance of the Qualified Obligations, the Qualified Entity shall deposit into the Reserve Account a sufficient amount of Qualified Entity Revenues then available to the Qualified Entity to provide a reserve for the payment of principal of and interest on all bonds issued by the Qualified Entity which reserve shall be equal to the least of (i) the maximum annual debt service on all outstanding bonds of the Qualified Entity, (ii) one hundred twenty-five percent (125%) of the average annual debt service on all outstanding bonds of the Qualified Entity, or (iii) ten percent (10%) of the proceeds of all outstanding bonds of the Qualified Entity; provided, however, that in accordance with the Qualified Entity Act, such reserve shall not in any event exceed an amount equal to two (2) times the maximum annual amount of principal and interest coming due on any bonds issued by the Qualified Entity in any subsequent year by reason of stated maturities, scheduled mandatory prepayments or by operation of any mandatory prepayments or by operation of any mandatory sinking fund (the "Qualified Entity Reserve Requirement"). Any deficiencies in credits to the Reserve Account shall be promptly made up from the next available Qualified Entity Revenues remaining after credits into the Principal and Interest Account. If moneys in the Reserve Account are transferred to the Principal and Interest Account to pay principal and interest on bonds, then such depletion of the balance in the Reserve Account shall be made up from the next available Qualified Entity Revenues after the credits into the Principal and Interest Account.

After making any required deposits into the Principal and Interest Account and the Reserve Account to satisfy the Bond Fund Requirement, any remaining Qualified Entity Revenues received by the Qualified Entity shall be deposited into the Excess Account. Amounts on deposit in the Excess Account may be expended by the Qualified Entity Board for any purpose authorized by the Qualified Entity Act; provided, however, that the portion of the Qualified Entity Revenues constituting Situs Revenues may be used only for purposes of the Principal and Interest Account and the Reserve Account as required by Indiana Code 6-1.1-8-35. Moneys in the Excess Account shall be transferred to the Principal and Interest Account if necessary to prevent a default in the payment of principal of and interest on the then outstanding bonds payable from the Bond Fund or to the Reserve Account if necessary to eliminate any deficiencies in credits to or minimum balances in the Reserve Account.

The Qualified Entity reserves the right to authorize and issue additional bonds, payable out of the Qualified Entity Revenues, ranking on a parity with the Qualified Obligations upon compliance with certain conditions as set forth in Appendix E-3.

Procedures for Collection of Qualified Entity Revenues

The Qualified Obligations of the Qualified Entity are payable from the Qualified Entity Revenues received by the Qualified Entity.

Situs Revenues from the Commuter Rail Service Fund are distributed by the Auditor of the State. In addition, prior to the distribution, the Governor must approve the distribution. There can be no assurances that the Governor will approve the distribution. At this time, the Qualified Entity is the only recipient of Situs Revenues.

Electric Rail Service Fund Revenues from the Electric Rail Service Fund are distributed equally to all qualifying commuter transportation districts. At this time, the Qualified Entity is the only recipient of Electric Rail Service Fund Revenues.

The State General Assembly has covenanted with the holders of the Qualified Obligations that, as long as the Qualified Obligations are outstanding, the taxes providing the Qualified Entity Revenues shall not be repealed, amended or altered in any manner that would adversely affect the levy and collection of those taxes.

The calculation of the tax liability for both railroad car companies and railroad companies is based on factors that can vary from year to year. Taxes levied on the indefinite-situs distributable property of railroad car companies are based on the average number of cars owned or used by the company within the State during the calendar year preceding the year of assessment. This determination is based generally on the ratios of Indiana miles traveled to total miles traveled by all of its cars and the company's Indiana earnings to total earnings of all of its cars. Taxes levied on the distributable property of any railroad company are based generally on the value of its rail lines and equipment located within any county in which the company provides railroad services. In either case, fluctuations in these variables would affect the amount of taxes levied, collected and distributed. In addition, the amount of Qualified Entity Revenues collected and distributed can be affected by the tax rate and maintenance credits taken by railroad car companies.

The indefinite situs tax rate is based upon the average property tax rate in the State, as determined by the DLGF. The tax rate on the distributable property of a railroad company described above is based upon the average property tax rate that is imposed by taxing districts located in any county in which such railroad company provides railroad services.

Indiana Code 6-1.1-8.2 allows for a tax credit for railroad car maintenance and improvements undertaken in the State. This credit is taken against the tax liability calculated under Indiana Code 6-1.1-8-35 and is available to railroad car companies as defined under Indiana Code 6-1.1-8-2. The credit is the lesser of the taxpayer's total tax liability or 25% of the taxpayer's qualified expenditures. The taxpayer must apply for the credit with the DLGF. The total credits that may be provided by the DLGF in a calendar year may not exceed \$2,800,000 for all taxpayers located within the State. To the extent that applications for credits exceed this amount, the credit for each taxpayer will be reduced on a pro rata basis as outlined under Indiana Code 6-1.1-8.2.

Enforcement of Qualified Obligations

As the owner of the Qualified Obligations, the Bond Bank has available to it all remedies available to owners or holders of securities issued by the Qualified Entity. The Act provides that, upon the sale and delivery of any Qualified Obligations to the Bond Bank, the Qualified Entity is deemed to have agreed that all statutory defenses to nonpayment are waived if such Qualified Entity fails to pay principal of, or interest on, such Qualified Obligations when due.

The Bond Bank is obligated under the Indenture to avail itself of all remedies and provisions of law applicable in the circumstances, and the failure to exercise any right or remedy within a time or period provided by law may not, according to the Act, be raised as a defense by the Qualified Entity.

Further, the Qualified Entity has agreed under the Purchase Agreement to report to the Bond Bank on its compliance with certain covenants which the Qualified Entity has made regarding various actions and conditions necessary to preserve the tax exempt status of interest paid on the Qualified Obligations. See "TAX MATTERS." The Bond Bank has also determined to consult with the Qualified Entity, as necessary from time to time, with regard to the action needed to be taken by the Qualified Entity to preserve the exclusion of the interest on the Bonds from the gross income of the holders of the Bonds for federal income tax purposes.

The Bond Bank will monitor the compliance and consult regularly with the Qualified Entity with respect to its requirements under the Qualified Obligations, including the making of Qualified Obligation Payments to the Bond Bank.

Additional Bonds

Under the Indenture, one or more series of Additional Bonds of the Bond Bank may be issued on a parity with the Bonds and all other bonds issued under the Indenture, upon meeting certain conditions, without limitations as to amount and at any time, for the purpose of paying (i) interest on the Bonds, (ii) costs of issuance, (iii) purchasing additional qualified obligations issued for the purpose of providing funds for completion or expansion of the Project and (iv) refunding outstanding Bonds. The proceeds of any Additional Bonds will be applied as provided

in an indenture supplemental to or amendatory of the Indenture authorizing such Additional Bonds.

Debt Service Reserve Fund

Under the Indenture, the Debt Service Reserve Fund is required to contain an amount equal to the least of (i) the maximum annual debt service on the Bonds, (ii) ten percent (10%) of the original stated principal amount of the Outstanding Bonds, or (iii) one hundred twenty-five percent (125%) of the average annual debt service on the Bonds ("Reserve Requirement").

The Debt Service Reserve Fund will be initially funded with the Qualified Surety Bond (as described below) in an amount equal to the Reserve Requirement or \$2,599,927.50. See "DEBT SERVICE RESERVE FUND POLICY."

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund into which there is to be deposited or transferred:

1. All proceeds of the Bonds required to be deposited in the Debt Service Reserve Fund by the terms of the Indenture or any supplemental indenture or resolution of the Bond Bank with respect to the proceeds of the Bonds;
2. All money required to be transferred to the Debt Service Reserve Fund from another Fund or Account under the Indenture;
3. All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and
4. Any other available money or funds that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

State Debt Service Reserve Fund Appropriations Mechanism

The Act provides that in order to assure the maintenance of the Reserve Requirement in the Debt Service Reserve Fund, the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank prior to December 1 of any year to the State General Assembly, as necessary to restore the Debt Service Reserve Fund to the Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before December 1 of any Fiscal Year in which the amount in the Debt Service Reserve Fund is projected to be less than the Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that if the

State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding, as of October 1, 2004, an aggregate principal amount of approximately \$421,660,000 in separate program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of the principal of or interest on the Bonds.

Appendix A contains more detailed information concerning State finances, including indebtedness, and the State budget and appropriations process. See also "RISK FACTORS."

AGREEMENT WITH THE STATE

Under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank, including the Bonds, not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

BOND INSURANCE

Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the Bond Bank or the Underwriters as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Bond Bank. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Bond Bank. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal

Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Bond Bank, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the

"FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately \$284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the six months ended June 30, 2004, and the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately \$27.1 billion, \$42.4 billion and \$47.9 billion par value of securities, respectively (of which approximately 60%, 79% and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately \$162.9 million, \$260.3 million and \$232.6 million, respectively. For the six months ended June 30, 2004, Financial Guaranty had reinsured, through facultative arrangements, approximately 0.1% of the risks it had written.

As of June 30, 2004, Financial Guaranty had net admitted assets of approximately \$2.935 billion, total liabilities of approximately \$1.793 billion, and total capital and policyholders' surplus of approximately \$1.142 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of June 30, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003 and December 31, 2002, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by the Issuer with the NRMSIRs subsequent to the date of this Official Statement and prior to the

termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

DEBT SERVICE RESERVE FUND POLICY

Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the Bond Bank or the Underwriters as to the accuracy or completeness of this information.

The Reserve Policy

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Bond Bank, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy, \$2,599,927.50. Financial Guaranty will make such payments to the paying agent (the "Paying Agent") for the Bonds on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial

Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Bond Bank. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Reserve Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the earlier of the scheduled final maturity date of the Bonds or the date on which no Bonds are outstanding under the authorizing document.

Generally, in connection with its issuance of a Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Bonds or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Reserve Policy may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the issuer of the Bonds is required to provide additional or substitute credit enhancement, and related matters.

The Reserve Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

See. "BOND INSURANCE – Financial Guaranty Insurance Company" above.

Financial Guaranty's Credit Ratings

See. "BOND INSURANCE – Financial Guaranty's Credit Ratings" above.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "DEBT SERVICE RESERVE FUND POLICY." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

RISK FACTORS

Purchasers of the Bonds are advised of certain risk factors with respect to the delivery and payment of the Qualified Obligations by the Qualified Entity, and delivery and payment of the Bonds. This discussion is not intended to be all-inclusive, and other risks may also be present.

Sources of Payment for the Bonds

The ability of the Bond Bank to pay principal of, and interest on, the Bonds depends upon the receipt by the Bond Bank of payments pursuant to the Qualified Obligations, including interest at the rates provided therein, from the Qualified Entity which is obligated to make such payments to the Bond Bank, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments.

The principal sources of payment of the Qualified Obligations are the Qualified Entity Revenues and the Reserve Account for the Qualified Obligations. Except for the payments on the Qualified Obligations and the Debt Service Reserve Fund, there is no source of funds available to make up for any deficiencies in the event of one or more defaults by the Qualified Entity in such payments on the Qualified Obligations. There can be no representation or assurance that the Qualified Entity will receive sufficient Qualified Entity Revenues or otherwise have sufficient funds available to make its required payments on the Qualified Obligations. Qualified Entity Revenues may be affected by, among other things, (1) reassessment of real and personal property which may result in lower tax rates and a reduction in the amount of Qualified Entity Revenues or (2) the financial inability of the railroad car companies or railroad companies to pay their taxes. For a description of procedures for providing for the payment of Qualified Obligations, see the captions "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Provisions for Payment of the Qualified Obligations," "Procedures for the Collection of Qualified Entity Revenues" and "Enforcement of Qualified Obligations."

Failure to Appropriate Funds to Restore Debt Service Reserve Fund

The Bond Bank will maintain a debt service reserve for the Bonds and the provisions of Indiana Code 5-1.5-5 apply to the Bonds. Indiana Code 5-1.5-5 pertains to the requirement that, if there is a deficiency in a debt service reserve fund securing obligations of the Bond Bank, the Chairman of the Bond Bank must certify the amount of such a deficiency to the Indiana General Assembly for its consideration on whether to appropriate funds to restore the debt service reserve fund to its requirement.

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - State Appropriations Mechanism"). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve

Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that if the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Bonds be deemed to be a debt or obligation of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Debt Service Reserve Fund" and "State Debt Service Reserve Fund Appropriations Mechanism" herein.

Tax Exemption

The Bond Bank has covenanted under the Indenture to take all qualifying actions and not to fail to take any qualifying actions required to assure the continuing exclusion of interest on the Bonds from gross income for federal income tax purposes. Failure by the Bond Bank to comply with such covenants could cause the interest on the Bonds to be taxable retroactive to the date of issuance. Also, in connection with the purchase of the Qualified Obligations, the Bond Bank will receive an opinion of Baker & Daniels, to the effect that, conditioned upon continuing compliance by the applicable Qualified Entity with certain covenants made in connection with the issuance of the Qualified Obligations, the interest on the Qualified Obligations is excludable from the gross income of the holder thereof for federal income tax purposes under existing statutes, decisions, regulations and rulings. However, the interest on such Qualified Obligations could become taxable if Qualified Entity fails to comply with certain of such covenants, including, without limitation, the covenant to rebate or cause to be rebated, if necessary, to the United States government all arbitrage earnings with respect to the Qualified Obligations under certain circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent such Qualified Obligations from being deemed to be "private activity bonds" under the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds and any applicable regulations promulgated thereunder (the "Code"). Such an event could in turn adversely affect the exempt status of the interest on all of the Bonds retroactive to the date of issuance. See "TAX MATTERS" herein.

Limited Remedies

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon the occurrence of an Event of Default under the Indenture or under the terms of any of the Qualified Obligations purchased by the Bond Bank and the Purchase Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture and under the Purchase Agreement and the Qualified Obligations may not be readily available or may be limited.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds related to acquiring the Qualified Obligations and paying costs incidental to the sale and delivery of the Bonds are estimated as shown below:

Sources of Funds:

| | |
|---------------------------|------------------------|
| Principal Amount of Bonds | \$29,275,000.00 |
| Original Issue Discount | (8,601.00) |
| Original Issue Premium | <u>1,345,315.95</u> |
| TOTAL SOURCES | \$30,611,714.95 |

Uses of Funds:

| | |
|---|------------------------|
| Acquisition of Qualified Obligations | \$30,000,000.00 |
| Deposit to Capitalized Interest Account | 110,000.00 |
| Costs of Issuance(1) | <u>501,714.95</u> |
| TOTAL USES | \$30,611,714.95 |

(1) Includes Underwriters' discount and the premium for the municipal bond insurance policy and the Qualified Surety Bond.

THE INDIANA BOND BANK

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a loan to or a lease or an agreement with a qualified entity, a purchase, acquisition or a sale of qualified obligations or other investments or the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;

4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;

5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;

6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other program expenses properly attributable to qualified entities;

7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes, or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;

2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;
3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;
4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business or act as a savings bank, savings and loan association or any other kind of financial institution; or
5. Engage in any form of private or commercial banking business.

Organization and Membership of the Bond Bank

The membership of the Board of Directors of the Bond Bank ("Board") consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below. Upon expiration of such term, a Director will continue to serve until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Board appoints and fixes the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board.

Tim Berry, Treasurer of the State of Indiana, February 10, 1999 to present and Chairman Ex Officio. Residence: Indianapolis, Indiana. Member, Indiana State Board of Finance; Vice-Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority; Allen County, Indiana Treasurer 1990 to February, 1999.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962 to 1985; Former Examiner, Federal Deposit Insurance Corporation.

Clark H. Byrum, Vice Chairman; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and Norcen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriter.

C. Kurt Zorn, Director; term expired July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to present; Chairman, State Board of Tax Commissioners, January 1991 to August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987 to 1994 (on leave 1989 to 1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Russell Breeden, III, Director; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to 2002. Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

Marni McKinney; Director, term expired July 1, 2004. Residence: Indianapolis, Indiana. Vice President, 1984 to 1999 and Chairman of the Board, 1999 to present, First Indiana Bank; President and CEO, The Somerset Group, 1995 to 2000; Vice Chairman and Chief Executive Officer, First Indiana Corporation, 1999 to present; Board of Directors, The Children's Museum and Community Hospitals of Indiana, Inc.; Investment Committee Member, The Indianapolis Foundation.

Morris H. Mills, Director, term expired July 1, 2003. Residence: Ladoga, Indiana. Partner, Mills Bros. Farms; Member, Indiana State Senate, 1972 to 2000; Member, Indiana State House of Representatives, 1968 to 1972; Director and Officer, Maplehurst Group, 1954 to 1996.

Although the expiration date of the terms of five Directors has passed, the Act provides that their terms will not expire until their successors are appointed and qualified. No such successors have been appointed and qualified.

The Board is authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of The Indianapolis Local Public Improvement Bond Bank for over three

years. Mr. Huge has over 14 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and had outstanding as of November 1, 2004, an aggregate principal amount of approximately \$3,882,195,000 in separate program obligations not secured by the Indenture, approximately \$421,660,000 of which are secured by debt service reserve funds eligible for annual appropriation by the State General Assembly. Additionally, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financings, if any, will be secured separately from the Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

THE STATE OF INDIANA

A discussion of the State and its financial condition and procedures is set forth in APPENDIX A, "Financial and Economic Statement for the State of Indiana." **However, neither the faith, credit nor taxing power of the State are pledged to the payment of the principal of, premium, if any, and interest on any of the Bonds, and the Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State.**

OPERATION OF FUNDS AND ACCOUNTS

The Indenture creates and establishes a General Fund which will be held by the Trustee and will consist of the following accounts:

- General Account
- Redemption Account
- Bond Issuance Expense Account
- Purchase Account
- Capitalized Interest Account

This Indenture also establishes a Debt Service Reserve Fund and a Rebate Fund.

Purchase Account

The Trustee will deposit \$30,000,000 from Bond proceeds in the Purchase Account of the General Fund, to purchase the Qualified Obligations.

General Account

The Trustee will deposit in the General Account all payments on the Qualified Obligations and all income or gain on Investment Securities attributable to any fund or account.

Moneys in the General Account of the General Fund will be disbursed as follows: (i) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary to pay interest due to be paid on

Outstanding Bonds on such Interest Payment Date; and (ii) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary, if any, to pay principal due to be paid on Outstanding Bonds on such Interest Payment Date.

Redemption Account

There will be deposited in the Redemption Account all moneys received upon the sale or optional or mandatory redemption (prior to maturity) of Qualified Obligations and all other moneys required to be deposited therein pursuant to the Indenture. Moneys in the Redemption Account will be distributed as follows: (i) on the fifteenth day of each month, to the General Account, an amount equal to the principal which would have been payable during the following month if such Qualified Obligations had not been sold or redeemed prior to maturity, (ii) on the second Business Day prior to any Interest Payment Date, if amounts in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account amounts in the Redemption Account available for such transfer and not otherwise committed under the Indenture to the redemption of Bonds for which notice of redemption has been given; and (iii) after provision has been made for the payments required under (i) and (ii) above to (a) redeem Bonds of such maturity or maturities as may be directed by an Authorized Officer, if such Bonds are then subject to redemption; (b) purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds will then be subject to redemption; or (c) make investments until the payment of the Bonds at their maturity or maturities. Such price referenced in (b) above may not, however, exceed the redemption price which would be payable on the next ensuing redemption date on which the Bonds so purchased are redeemable according to their terms. The Trustee will pay the interest accrued on any Bonds so purchased to the date of delivery thereof from the General Account the balance of the purchase price from the Redemption Account, but no such purchase will be made by the Trustee within the period of forty-five (45) days next preceding an Interest Payment Date or a date on which such Bonds are subject to redemption.

Capitalized Interest Account

The Trustee will deposit \$110,000 in the Capitalized Interest Account for the purpose of paying a portion of the interest due on the Bonds on August 1, 2005.

Bond Issuance Expense Account

The Trustee will deposit \$222,867.19 of the proceeds of the Bonds in the Bond Issuance Expense Account for the purpose of paying the costs associated with issuing the Bonds. Moneys in the Bond Issuance Expense Account will be disbursed to pay Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs, upon the Trustee's receipt of acceptable invoices or requisitions. All funds in the Bond Issuance Expense Account which are not expended for Costs of Issuance prior to May 1, 2005 will be transferred to the General Account of the General Fund.

Debt Service Reserve Fund

The Trustee will deposit in the Debt Service Reserve Fund all money required to be deposited therein pursuant to the Indenture, any moneys appropriated by the General Assembly of the State to the Debt Service Reserve Fund and any other moneys directed by the Bond Bank; will invest such funds pursuant to the Indenture; and will disburse, except as otherwise provided in the Indenture, the funds held in the Debt Service Reserve Fund to the General Account, if, on the second business day next preceding each Interest Payment Date, the moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date after taking into account available funds on deposit in the General Account.

The Trustee will disburse the funds held in the Debt Service Reserve Fund to pay the principal of and interest on the Bonds only in the event that moneys in the General Fund are insufficient to pay such amount due.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Bonds a Qualified Surety Bond. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement, moneys in excess of the Reserve Requirement will be moved to the General Account or Redemption Account, as directed by the Bond Bank.

If a disbursement is made pursuant to a Qualified Surety Bond, the Bond Bank will be obligated (but solely from any appropriations made by the General Assembly of the State or funds otherwise available from the Trust Estate) within twelve months from the date on which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Qualified Surety Bond or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement.

If a deficiency in the Debt Service Reserve Fund is projected by Bond Bank in the next succeeding Fiscal Year, the Chairman of the Bond Bank will certify such projected deficiency or depletion to the General Assembly of the State on or before December 1 of the Fiscal Year in which the deficiency is projected to occur.

The Bond Bank will take all actions required or allowed by the Act to certify to the General Assembly of the State any deficiency in the Debt Service Reserve Fund, regardless of whether such deficiency was projected by the Bond Bank.

Rebate Fund

The Rebate Fund will be established to comply with the provisions of Section 148 of the Code concerning the rebate of certain arbitrage earnings to the United States of America. Deposits into the Rebate Fund and disbursements from the Rebate Fund will be made as provided by the Indenture and as required by federal tax law applicable to the Bonds. The Rebate Fund is not subject to the lien of the Indenture and does not constitute a Fund or Account for purposes of the Indenture.

So long as any of the Bonds are Outstanding and the Bond Bank is subject to a rebate obligation under the Code, the Bond Bank covenants to establish and maintain the Rebate Fund and to comply with the instructions relating to its ongoing rebate responsibilities delivered on the date of initial delivery of the of Bonds. Such instructions will set forth procedures which may be amended from time to time.

Amounts Remaining in Funds

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, including rebate owed to the United States of America and the fees, charges and expenses of the Trustee will be distributed to the Qualified Entity, unless otherwise provided for in the Indenture.

Investment of Funds

Moneys held as a part of any Fund or Account under the Indenture will be invested and reinvested at all times as fully as reasonably possible by the Trustee in investments defined to be Investment Securities under the Indenture and in accordance with the provisions of the Act and the terms and conditions of the Indenture.

The Bond Bank will direct the Trustee (with such direction to be confirmed in writing) in the investment of such moneys. The Bond Bank will so direct the Trustee, and the Bond Bank and the Trustee will make all such investments of moneys under the Indenture, in accordance with prudent investment standards reasonably expected to produce the greatest investment yields while seeking to preserve principal. The Bond Bank may direct the Trustee to invest all moneys held in the General Account relating to the Bonds pursuant to the provisions of an investment agreement (the "Investment Agreement").

All investments will be a part of the Fund or Account from which moneys were used to acquire such investments, and all income and profits on such investments will be deposited as received in the General Account. Any Investment Earnings will be considered a part of the Fund or Account from which such investment was made, except as otherwise provided in the Indenture, gains or losses will be charged to the Fund or Account from which moneys were employed to invest in the Investment Security, and the Trustee will not be liable for any investment losses so long as the Trustee complies with the provisions of the Indenture. Moneys in any Fund or Account will be invested in Investment Securities with maturity dates (or redemption dates determinable at the option of the owner of such Investment Securities) coinciding as nearly as practicable with the times at which moneys in such Funds or Accounts will be required for transfer or disbursement under the Indenture. The Trustee will sell and reduce to cash at the best price reasonably obtainable sufficient amounts of such Investment Securities in the respective Fund or Account as may be necessary to make up a deficiency in any amounts contemplated to be disbursed from such Fund or Account.

THE BONDS AS LEGAL INVESTMENTS

Under the Act, all financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees and other fiduciaries in the

State may legally invest sinking funds, money or other funds belonging to or within the control of such fiduciaries in the bonds and Bonds of the Bond Bank issued under the Act.

LITIGATION

Bond Bank

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation (1) restraining or enjoining the issuance, sale, execution or delivery of the Bonds, (2) prohibiting the Bond Bank from purchasing the Qualified Obligations with the proceeds of such Bonds, (3) in any way contesting or affecting the validity of the Bonds or (4) restraining or enjoining any proceedings of the Bond Bank taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Bonds. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present Directors or other officers of the Bond Bank to their respective offices is being contested.

Qualified Entity

Upon the issuance of the Qualified Obligations, the Bond Bank will receive a certification from the Qualified Entity to the effect that (i) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, pending or threatened against the Qualified Entity, wherein an unfavorable decision, ruling or finding would in any material respect adversely affect the transactions contemplated by the Purchase Agreement and (ii) the information provided to the Bond Bank by the Qualified Entity did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

TAX MATTERS

In the opinion of Baker & Daniels, Indianapolis, Indiana, Bond Counsel, under law existing and in effect on the date of such opinion, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Code. The opinion of Baker & Daniels is based on certain certifications, covenants and representations of the Bond Bank and the Qualified Entity issuing the Qualified Obligations and is conditioned on continuing compliance therewith. In the opinion of Baker & Daniels, Indianapolis, Indiana, Bond Counsel, under law existing and in effect on the date of such opinion, interest on the Bonds is exempt from taxation in the State of Indiana for all purposes except the State inheritance tax and the State financial institutions tax. See Appendix C, "FORM OF BOND COUNSEL OPINION."

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the exclusion from gross income of interest on the Bonds for federal tax purposes. Noncompliance with such requirements may cause interest on the Bonds to be includable in gross income for federal tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the Bonds would be materially and adversely affected. The Tax Covenants include covenants that (i) the Bond Bank and Qualified Entity will not take or fail to take any action with respect to the Bonds, if such action or omission would result in the loss of the exclusion from gross income for federal tax

purposes of interest on the Bonds under Section 103 of the Code, and the Bond Bank and the Qualified Entity will not act in any other manner which would adversely affect such exclusion; (ii) the Bond Bank and Qualified Entity will not make any investment or do any other act or thing during the period that the Bonds are outstanding which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code; and (iii) if required by the Code, the Bond Bank will rebate any necessary amounts to the United States of America. It is not an event of default under the Indenture if interest on the Bonds or the Qualified Obligations, respectively, is not excluded from gross income for federal tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Bonds.

The Bonds are not "private activity bonds" for the purpose of treatment of interest thereon as a specific preference item in calculating the federal individual or corporate alternative minimum taxes. However, interest on the Bonds is includable in "adjusted current earnings" in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Although Bond Counsel will render an opinion that interest on the Bonds is excludable from gross income for federal tax purposes and exempt from certain State income tax, the accrual or receipt of interest on the Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Except as expressly set forth above, Bond Counsel expresses no opinion regarding any other such tax consequences.

No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that the interest on the Bonds becomes subject to income taxation.

The foregoing does not purport to be a comprehensive discussion of all of the tax consequences of owning the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Bonds.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of the Bonds maturing on February 1, 2011 (the "Discount Bonds"), is less than the principal amounts payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering prices of the Discount Bonds, as set forth on the inside cover of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity and who holds such Discount Bond to maturity may treat the full amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes and will not, under present federal income tax law, realize taxable capital gain upon payment of the Discount Bond at maturity.

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or longer period from the date of the original issue) ending on February 1 and August 1 (with straight line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

As described above under "TAX MATTERS," the original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The initial offering prices of the Bonds maturing on February 1 in the years 2007 through 2010, 2012, 2013 and 2016 through 2022 (the "Premium Bonds") are greater than the principal amount payable at maturity or call. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity).

or call). The amount of amortizable Bond Premium will be computed on the basis of the owner's yield. Rules for determining (i) yield, (ii) the amount of amortizable Bond Premium and (iii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code and the Regulations accompanying that section. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning treatment of Bond Premium.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Bond Bank are subject to the approval of Baker & Daniels, Indianapolis, Indiana, Bond Counsel, whose approving opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the Bond Bank by its counsel, Barnes & Thornburg LLP, Indianapolis, Indiana. Certain legal matters will be passed upon the State by its Disclosure Counsel, Krieg DeVault, LLP, Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriters by their counsel, Ice Miller, Indianapolis, Indiana.

Baker & Daniels, Indianapolis, Indiana, serves as bond counsel to the Qualified Entity in connection with the issuance and sale of the Qualified Obligations and will be passing on certain legal matters in connection therewith.

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon an Event of Default under the Indenture, under the terms of the Qualified Obligations purchased by the Bond Bank, under the terms of the Purchase Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture and under the Qualified Obligations or the Purchase Agreement may not be readily available or may be limited. Under Federal and State environmental laws, certain liens may be imposed on property of the Bond Bank or the Qualified Entity from time to time, but the Bond Bank has no reason to believe, under existing law, that any such lien would have priority over the lien on the payments on the Qualified Obligations pledged to owners of the Bonds under the Indenture or over the lien on the Qualified Entity Revenues and the moneys on deposit in the Reserve Account pledged to the Bond Bank, as owner of the Qualified Obligations. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally (regardless of whether such enforceability is considered in a proceeding in equity or in law), by

general principles of equity (regardless of whether such proceeding is considered in a proceeding in equity or at law) and by the valid exercise of the constitutional powers of the Qualified Entity, the State and the United States of America. These exceptions would encompass any exercise of any of the Qualified Entity's police powers in a manner consistent with the public health and welfare. Enforceability of the Indenture, the Qualified Obligations or the Purchase Agreement in situations where such enforcement may adversely affect public health and welfare may be subject to the police powers of the State or any of the Qualified Entity.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

RATING

Standard & Poor's Ratings Services ("S&P") has assigned a rating of "A" to the Bonds if they are issued without bond insurance and a rating of "AAA" if they are issued with bond insurance. This rating reflects only the view of S&P. Such rating is not a recommendation to buy, sell or hold the Bonds. There is no assurance that such rating will remain in effect for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect upon the market price or marketability of the Bonds.

UNDERWRITING

Under a bond purchase contract entered into between the Underwriters listed on the cover page of this Official Statement and the Bond Bank, the Bonds are being purchased by the Underwriters for reoffering at an aggregate purchase price of \$30,491,868.26. The purchase price reflects an aggregate Underwriters' discount of \$119,846.69. The bond purchase contract provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligations of the Bond Bank to deliver the Bonds and of the Underwriters to accept delivery of the Bonds are subject to various conditions contained in the bond purchase contract.

The Underwriters have agreed to make an initial public offering of all of the Bonds at yields not less than the yields set forth on the cover page of this Official Statement.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The accuracy of certain mathematical computations showing that payments on the Qualified Obligations, together with other available revenues, have been structured to be sufficient to pay principal of and interest on the Bonds when due will be verified by London Witte Group, LLC, independent certified public accountants. Such verifications shall be based upon certain information and assumptions supplied by the Bond Bank and the Underwriters.

CONTINUING DISCLOSURE

Bond Bank Undertaking

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), and the terms of the Continuing Disclosure Undertaking Agreement (the "Bond Bank Undertaking"), among the State, the Bond Bank and the Trustee, the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent, the following annual financial information and operating data, as long as the State is an "obligated person" (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Bond Bank Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") and to the Indiana state information depository, if any (the "State Depository"), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ended June 30, 2004, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within two hundred and twenty (220) days following the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2004, the State Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the State Annual Information when they become available; and

2. Financial Information in this Official Statement. To each NRMSIR and to the State Depository, if any, within two hundred and twenty (220) days of the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2004, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix A - "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA."

(The information described in items 1 and 2 above is referred to as the "State Annual Information.")

Pursuant to the terms of the Bond Bank Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Depository, if any, the following event notices, if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;

- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State or the Bond Bank may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above. If the State or the Bond Bank chooses to provide any such additional information, they will have no obligation to update such information or include it in any future State Annual Information or event notice.

Qualified Entity Undertaking

In accordance with the disclosure requirements in the Rule and the terms of the Continuing Disclosure Agreement of the Qualified Entity (the "Qualified Entity Undertaking"), the Qualified Entity, while the Bonds are outstanding, has agreed to provide to the Bond Bank the preceding event notices with regard to the Qualified Obligations, if material, and in a timely manner, and has agreed to provide the following information while any Qualified Obligations are outstanding:

1. Financial Information. An update of the financial information and operating data relating to the Qualified Entity of the same nature as that contained in Appendix B to each NRMSIR, to the State Depository, if any, and to the Bond Bank, within 180 days after each December 31, commencing with the calendar year ending December 31, 2004.

2. Audited Financial Statements. To each NRMSIR, to the State Depository, if any, and to the Bond Bank, when and if available, the audited financial statements of the Qualified Entity as prepared and examined by its independent auditors for each twelve (12) month period ending December 31, commencing with the year ending December 31, 2004, together with the opinion of such accountants and all notes thereto, within sixty (60) days of receipt of such statements from its independent auditors.

(The information described in items 1 and above is referred to as the "Qualified Entity Annual Information.")

Notwithstanding the foregoing, any information required to be provided by the Qualified Entity to each NRMSIR and the State Depository as described above may, instead, be provided by the Qualified Entity to DisclosureUSA, but only for so long as the conditions for the interpretation made by the SEC in the Response continue to be met. "DisclosureUSA" means the Internet-based electronic filing system created by the Municipal Advisory Council of Texas for the purpose of facilitating compliance by issuers and obligated persons (both as defined in the Rule) with continuing disclosure agreements entered into to satisfy the obligations of underwriters (as defined in the Rule). "Response" means the interpretive letter, dated September 7, 2004, released by the Division of Market Regulation of the SEC regarding DisclosureUSA.

Failure to Disclose

In a timely manner, the Trustee shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the State to provide the State Annual Information. Notwithstanding the obligation of Trustee to give such notice, the State must give notice, in a timely manner, to each NRMSIR or the MSRB and the State Depository, if any, if it fails to provide the State Annual Information. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR and to the State Depository, if any, along with the State Annual Information required as specified above and containing such information as is still available, will satisfy the State's undertaking to provide the State Annual Information. To the extent available, the State will cause to be filed along with the State Annual Information operating data similar to that which can no longer be provided.

In a timely manner, the Qualified Entity shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the Qualified Entity to provide the Qualified Entity Annual Information. If any information relating to the Qualified Entity can no longer be provided because the operations to which it relates have been materially changed or discontinued, a statement to that effect, provided by the Qualified Entity to each NRMSIR and to the State Depository, if any, along with the Qualified Entity Annual Information required as specified above, will satisfy the Qualified Entity's undertaking to provide the Qualified Entity Annual Information.

Accounting Principles

The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time. The audited financial statements of the Qualified Entity (i) will be audited and prepared pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles as applicable to governments with such changes as may be required from time to time in accordance with State law, or (ii) will be audited (only if required by State law) and prepared in accordance with State law.

Remedies

The Bond Bank Undertaking and the Qualified Entity Undertaking (collectively "Undertakings") are solely for the benefit of the holders and beneficial owners of the Bonds and create no new contractual or other rights for the SEC, any underwriters, brokers, dealers, municipal securities dealers, potential customers, or other obligated persons or any other third party. The sole remedy against the State, the Bond Bank or the Qualified Entity for any failure to carry out any provision of their respective Undertakings shall be for specific performance of the State's, the Bond Bank's or the Qualified Entity's disclosure obligations under their respective Undertakings. Failure on the part of the State or the Bond Bank to honor their respective covenants under the Bond Bank Undertaking shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State or the Bond Bank is a party. Failure on the part of the Qualified Entity to honor its covenants under the Qualified Entity Undertaking shall not constitute a breach or default of the Qualified Obligations, the Qualified

Entity Resolution or any other agreement to which the Qualified Entity is a party. This remedy may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State, the Bond Bank or the Qualified Entity to comply with their respective disclosure obligations under the Undertakings.

Modification of Bond Bank Undertaking

The Bond Bank, the State and the Trustee may, from time to time, amend or modify any provision of the Bond Bank Undertaking without the consent of the holders or the beneficial owners of the Bonds if either: (a) (i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Bond Bank Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Bond Bank Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the State that is unaffiliated with the State (including the Trustee) or (B) an approving vote of the holders of the requisite percentage of outstanding Bonds as required under the Indenture at the time of such amendment or modification; or (b) such amendment or waiver (including an amendment which rescinds the Bond Bank Undertaking) is permitted by law or the Rule, as then in effect.

The State Annual Information for the fiscal year during which any such amendment or modification occurs that contains the amended or modified State Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of State Annual Information being provided.

Copies of the Bond Bank Undertaking are available from the Bond Bank upon request.

Modification of Qualified Entity Undertaking

The Qualified Entity may, from time to time, amend any provision of the Qualified Entity Undertaking without the consent of the holders or the beneficial owners of the Bonds if either: (a) (i) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Qualified Entity, or type of business conducted, (ii) the Qualified Entity Undertaking, as so amended, would have complied with the requirements of the Rule on the date of the Qualified Entity Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the Qualified Entity that is unaffiliated with the Qualified Entity, the Bond Bank or the State (such as the Trustee) or (B) an approving vote of the holders of the requisite percentage of outstanding Bonds as required under the Indenture at the time of such amendment; or (b) such amendment is otherwise permitted by the Rule.

Copies of the Qualified Entity Undertaking are available from the Bond Bank upon request.

Compliance with Previous Undertakings

In the previous five years, the Bond Bank, the State and the Qualified Entity have never failed to comply, in all material respects, with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

MISCELLANEOUS

The Bond Bank's offices are located at 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204, telephone (317) 233-0888.

All quotations from, and summaries and explanations of, the Act, the Indenture, the Qualified Entity Resolution and the Purchase Agreement contained in this Official Statement do not purport to be complete and reference is made to each such document or instrument for full and complete statements of its provisions. The attached Appendices are an integral part of this Official Statement and must be read together with all of the foregoing statements. Copies in a reasonable quantity of the Act, the Indenture, the Purchase Agreement, the Qualified Entity Resolution and the supplemental materials furnished to the Bond Bank by the Qualified Entity may be obtained upon request directed to the Bond Bank.

It is the Bond Bank's current policy to provide its financial statements to the holders of its obligations, including the Bonds, upon written request. In addition, certain other information concerning the Bond Bank is available to the Trustee and holders of the Bonds pursuant to the Indenture.

Neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement has been duly approved, executed and delivered by the Bond Bank.

INDIANA BOND BANK

By: /s/ Tim Berry

Chairman Ex Officio

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APPENDIX A

FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA

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APPENDIX A

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

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I. INTRODUCTION

This Financial and Economic Statement (the “Statement” and “Appendix A”) for the State of Indiana (the “State”) includes a discussion of the State’s economic and fiscal condition, the results of operations for the past two fiscal years and revenue and expenditure projections through the end of the biennium ending June 30, 2005. The information is compiled on behalf of the State by the State Budget Agency and the Public Finance Office and includes information and data taken from the Budget Agency’s unaudited reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled “Litigation” has been furnished by the office of the State Attorney General.

This Appendix A is dated as of July 12, 2004, except for the section captioned “LITIGATION,” which is dated as of August 23, 2004. The State expects to update the Statement not less than annually. The status of this Statement or any updates or supplements may be obtained by contacting the Public Finance Office, State of Indiana, One North Capitol, Suite 900, Indianapolis, Indiana 46204; Telephone (317) 233-4332. This Statement should be read in its entirety, together with any supplements.

II. STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to “take care that the laws are faithfully executed.” The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”), may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). If the Governor vacates the office or is unable to discharge the Governor’s duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The Treasurer of State is responsible for holding and investing all State revenue and disburses money upon warrants issued by the Auditor of State. The Treasurer of State is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The Auditor of State maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Information Technology Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term,

after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

III. FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the twelve-month period beginning on July 1 and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions with the exception of State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds. Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when susceptible to accrual (that is, when it is "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including the Motor Vehicle Highway Fund, which receives revenue from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes that revenue among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the Auditor of State. The PTR Fund is funded from 50% of State sales and use tax revenue, a portion of individual income tax receipts, and a portion of Gaming Revenue described below. The PTR Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a Special Revenue Fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund, so as to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures

relate to local school aid. For that reason, the General Fund and PTR Fund are sometimes discussed in this Appendix A as a single, combined fund. See “FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund.”

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children’s Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds. Proprietary Funds are used to account for a government’s business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds, Enterprise Funds and Internal Service Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government. An example is the State Office Building Commission.

Fiduciary Funds. Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of these funds: Pension Trust Funds, Private-purpose Trust Funds, and Agency Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Examples are the State Police Pension Fund and the Employees’ Deferred Compensation Fund. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations, or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund. Agency Funds are used to account for situations where the government’s role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

Budget Process

State Budget Agency. The Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

State Budget Committee. The Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President *pro tempore* of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member’s respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State’s budget process is set out in statute. The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency

then conducts an internal review of each request. In September of each even-numbered year, the Budget Committee begins hearings on budget requests. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

Revenue Projections. Revenue projections are prepared by the State's Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists from Indiana and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenue. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee, although the Economic Forecast Committee provides the economic assumptions used by the Technical Forecast Committee in preparing revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bill first and sends it to the Senate for consideration.

The budget report includes (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, and (e) the budget bill.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

Intra-Agency Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. By statute, the Budget Agency may, with the approval of the Governor and the State Budget Director,

transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;
3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or
4. without limiting the foregoing, supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Finance Board") consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenue. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenue is not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenue.

Cash Management and Investments

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund, the PTR Fund and more than 60 other funds. Indiana Code 5-13 sets forth certain limitations on the types and amounts of investments in which the Treasurer of State may invest State funds. These investments generally include securities (a) that are backed by the full faith and

credit of the United States Treasury or fully guaranteed by the United States and (b) issued by the United States Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise, as well as (c) other securities specified in statute. Additionally, investments may include repurchase agreements fully collateralized by securities listed in (a) and (b) above and certain deposit accounts insured by the Public Deposit Insurance Fund. No more than 25% of the total portfolio invested by the Treasurer of State may be made in securities maturing from two to five years, and no such security may have a maturity in excess of five years.

Audits

The State Board of Accounts is the State agency responsible for (a) auditing all State and local units of government and (b) approving uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

Certain Financial Information Incorporated by Reference; Availability from NRMSIRs, State

The Indiana Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2003 (the “2003 Financial Report”) is incorporated into this Appendix A by reference. So long as the State is deemed to be an “obligated person” under the meaning of Rule 15c2-12 of the Securities and Exchange Commission, it will file annually such a financial report with the following Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) in accordance with SEC Rule 15c2-12: Bloomberg Municipal Repository, FT Interactive Data, DPC Data, Inc., and Standard & Poor’s Securities Evaluations, Inc.

A copy of the 2003 Financial Report may be obtained from the NRMSIRs. In addition, the 2003 Financial Report may be found at: <http://www.in.gov/idfa/pfo>.

The 2003 Financial Report that may be found at the referenced website is intended to provide financial information about the State prepared and published by the Auditor of State. It is not, by itself, intended to present investment information about any particular revenue bond issue, including the revenue bonds offered with this Appendix A, within the meaning of applicable securities laws. Investment decisions should be made only after full review of the official statement for a particular revenue bond issue, including the revenue bonds offered with this Appendix A.

The 2003 Financial Report that may be found at the referenced website speaks only as of its date. There should be no implication that there has been no change in the financial or other affairs of the State or any other person described in this Statement or in the 2003 Financial Report after the date of the 2003 Financial Report.

IV. STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

Operating Revenue

While certain revenue of the State is required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenue is general revenue until applied. No lien or priority is created to secure the application of such revenue to any particular purpose or to any claim against the State. All revenue not allocated to a particular fund is credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description

of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as “State Operating Revenue” and “Operating Revenue.” Operating Revenue is defined as the total of General Fund and PTR Fund revenue forecasted by the Technical Forecast Committee. Total Operating Revenue together with “DSH revenue” transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State’s unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. “DSH” is an acronym for “Disproportionate Share for Hospitals (federal funds),” and DSH revenue constitutes additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people. See “Fund Balances—Combined General and PTR Fund.”

Major General Fund and PTR Fund Revenue Sources

Sales and use and corporate and individual income taxes are the three primary sources of State Operating Revenue. In addition, legislation passed by the 2002 General Assembly, directs the deposit of wagering taxes into the PTR Fund, making wagering taxes another source of Operating Revenue beginning in Fiscal Year 2003. Table IV-1 provides annual revenue by source and growth rates over time. The following is a summary of Operating Revenue.

Sales and Use Taxes. The 2002 General Assembly, meeting in Special Session, increased the sales and use tax rate from 5.0% to 6.0%, effective December 1, 2002. This tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 6.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs. Prior to the 2002 increase, the sales and use tax rate was last increased in Fiscal Year 1983.

Corporate Income Taxes. As part of tax restructuring legislation passed in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). These changes were effective January 1, 2003.

The adjusted gross income tax is applicable to corporations doing business in the State. Prior to the change in tax rate, the effective rate for a taxpayer paying adjusted gross income tax and supplemental net income tax was 7.47%. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax. Adjusted gross income tax collections are allocated to the General Fund.

The utilities receipts tax is based on gross receipts from retail utility sales. It is imposed at a rate of 1.4% and was effective January 1, 2003. Utilities must also pay the corporate adjusted gross income tax.

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenue derived from the collection of the adjusted gross income tax imposed on persons is credited to the General Fund and PTR Fund. State individual income tax rates were last increased effective calendar year 1988.

Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to Fiscal Year 2003, all wagering taxes earned by the State were deposited into the Build Indiana Fund. Legislation passed by the Special Session of the 2002 General Assembly changed the collection and distribution of wagering taxes and allowed riverboats to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. The legislation imposes a graduated wagering tax on riverboats that adopt flexible scheduling. The graduated tax is set at 15% of the first \$25.0 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25.0 million and \$50.0 million, 25% of receipts between \$50.0 million and \$75.0 million, 30% of receipts between \$75.0 million and \$150.0 million, and 35% of adjusted gross receipts in excess of

\$150.0 million. The wagering tax on riverboats that do not implement flexible scheduling increased from 20% to 22.5% of adjusted gross receipts; however, all riverboats operating in Indiana have implemented flexible scheduling.

The legislation also changed the distribution of wagering taxes. The first \$33.0 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations, and 75% is deposited in the PTR Fund. From the revenue distributed to the PTR Fund, an amount is distributed annually to the Build Indiana Fund.

Other Operating Revenue. Other revenue ("Other Revenue") is derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by \$0.40 per pack, to \$0.555 per pack, and increased the tax on other tobacco products by 3%.

Revenue History

Annual percentage changes for each component of Operating Revenue is reflected in Table IV-1. The table also includes actual revenue for prior Fiscal Years as well as forecasted revenue for Fiscal Years 2003, 2004 and 2005.

Table IV-1
State Operating Revenue
(Millions of Dollars)

| | <u>Sales Tax</u> | <u>Individual Income</u> | <u>Corporate Income</u> | <u>Wagering Tax</u> | <u>Other⁽¹⁾</u> | <u>Total</u> |
|---------------------------------|----------------------|------------------------------|-----------------------------|-------------------------|----------------------------|----------------------|
| FY 1998 ⁽²⁾ | 3,250.9 | 3,434.8 | 1,015.5 | N/A | 720.2 | 8,421.4 |
| FY 1999 ⁽²⁾ | 3,396.0 | 3,699.3 | 1,044.4 | N/A | 743.5 | 8,883.2 |
| FY 2000 ⁽²⁾ | 3,651.4 | 3,753.3 | 985.3 | N/A | 752.7 | 9,142.7 |
| FY 2001 ⁽²⁾ | 3,686.8 | 3,779.8 | 855.3 | N/A | 730.1 | 9,052.0 |
| FY 2002 ⁽²⁾ | 3,761.4 | 3,540.8 | 709.4 | N/A | 697.2 | 8,708.9 |
| FY 2003 ⁽²⁾ | 4,172.4 | 3,644.2 | 729.2 | 430.7 | 903.6 | 9,880.1 |
| FY 2004 ⁽²⁾ | 4,721.0 | 3,807.9 | 644.7 | 601.5 | 844.8 | 10,619.9 |
| FY 2005 ⁽³⁾ | 4,937.5 | 3,971.8 | 630.9 | 599.3 | 862.3 | 11,001.8 |
| <u>% Change from Prior Year</u> | | | | | | |
| FY 1999 ⁽²⁾ | 4.5% | 7.7% | 2.8% | | 3.2% | 5.5% |
| FY 2000 ⁽²⁾ | 7.5% | 1.5% | -5.7% | | 1.2% | 2.9% |
| FY 2001 ⁽²⁾ | 1.0% | 0.7% | -13.2% | | -3.0% | -1.0% |
| FY 2002 ⁽²⁾ | 2.0% | -6.3% | -17.1% | | -4.5% | -3.8% |
| FY 2003 ⁽²⁾ | 10.9% ⁽⁴⁾ | 2.9% | 2.8% | N/A | 29.6% ⁽⁴⁾ | 13.4% ⁽⁴⁾ |
| FY 2004 ⁽²⁾ | 13.1% ⁽⁴⁾ | 4.5% | -11.6% | 39.7% ⁽⁴⁾ | -6.5% | 7.5% ⁽⁴⁾ |
| FY 2005 ⁽³⁾ | 4.6% | 4.3% | -2.1% | -0.4% | 2.1% | 3.6% |

⁽¹⁾ See "Major General Fund and PTR Fund Revenue Sources—Other Operating Revenue."

⁽²⁾ Actual, but unaudited Operating Revenue.

⁽³⁾ Forecasted Operating Revenue.

⁽⁴⁾ The forecasted Operating Revenue is adjusted to reflect the tax increases enacted in 2002, which include a sales tax increase from 5% to 6%, effective December 1, 2002; a cigarette tax increase from \$0.155 to \$0.555, effective July 1, 2002; and wagering tax increases, effective July 1, 2002. A portion of wagering tax revenue is deposited in the PTR Fund. See "Financial Results of Operations."

Source: State Budget Agency

Lottery and Gaming Revenue

By statute, certain revenue from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenue") must be deposited in the Build Indiana Fund. In 2002, the General Assembly enacted annual distributions of wagering tax revenue to the BIF in the amount of

\$250.0 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250.0 million is to remain in the PTR Fund. For a description of wagering taxes, *see* “Major General Fund and PTR Fund Revenue Sources—Wagering Tax.”

Before Hoosier Lottery profits are transferred to the Build Indiana Fund, \$60 million annually is used to fund local government pension liabilities. All lottery and gaming revenue deposited to BIF is appropriated by the General Assembly, and the statute that governs deposits of that revenue also governs priority of distribution in the event that revenue falls short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State’s counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles—\$236.2 million are appropriated for Fiscal Year 2004.

For Fiscal Year 2004, Gaming Revenue totaling \$804.9 million was collected by the State from the following sources:

| | |
|------------------|-----------------|
| Hoosier Lottery | \$198.5 million |
| Riverboat gaming | 601.5 million |
| Horse racing | 1.9 million |
| Charity gaming | 3.0 million |

Source: State Budget Agency

Operating Expenditures

The General Assembly appropriated \$22,786.5 million of General Fund and PTR Fund revenue for Fiscal Years 2004 and 2005. Actual expenditures may differ from appropriated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State’s five largest expenditure categories include local school aid, higher education, property tax relief, Medicaid and correction. These five categories constitute approximately 86.2% of all appropriations for Fiscal Years 2004 and 2005. Table IV-2 sets forth operating expenditures, estimates and appropriations for all major expenditure categories for Fiscal Years 1998 through 2005.

Table IV-2
Expenditures and Appropriations

| | <u>Local</u> <u>School Aid</u> | <u>Property</u> <u>Tax Relief</u> | <u>Higher</u> <u>Education</u> | <u>Medicaid</u> | <u>Correction</u> | <u>Other</u> | <u>Total</u> |
|---------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|-----------------|-------------------|--------------|--------------|
| FY 1998 ⁽¹⁾ | 3,423.1 | 873.3 | 1,180.5 | 913.3 | 403.9 | 1,504.3 | 8,298.4 |
| FY 1999 ⁽¹⁾ | 3,691.8 | 946.7 | 1,248.0 | 948.5 | 410.9 | 1,802.4 | 9,048.3 |
| FY 2000 ⁽¹⁾ | 3,894.0 | 1,078.6 | 1,331.5 | 986.1 | 473.5 | 1,829.8 | 9,593.5 |
| FY 2001 ⁽¹⁾ | 4,172.8 | 1,220.0 | 1,331.3 | 1,110.9 | 547.2 | 1,635.5 | 10,017.7 |
| FY 2002 ⁽¹⁾ | 3,889.5 | 1,209.9 | 1,294.7 | 1,138.0 | 582.1 | 1,592.9 | 9,707.1 |
| FY 2003 ⁽²⁾ | 4,214.1 | 1,638.5 | 1,389.4 | 1,247.0 | 569.0 | 1,629.5 | 10,687.5 |
| FY 2004 ⁽³⁾ | 4,253.6 | 2,115.2 | 1,474.4 | 1,266.4 | 589.3 | 1,581.9 | 11,280.7 |
| FY 2005 ⁽³⁾ | 4,302.5 | 2,243.9 | 1,527.7 | 1,266.4 | 591.4 | 1,573.9 | 11,505.8 |
| <u>% Change from Prior Year</u> | | | | | | | |
| FY 1999 ⁽¹⁾ | 7.8% | 8.4% | 5.7% | 3.9% | 1.7% | 19.8% | 9.0% |
| FY 2000 ⁽¹⁾ | 5.5% | 13.9% | 6.7% | 4.0% | 15.2% | 1.5% | 6.0% |
| FY 2001 ⁽¹⁾ | 7.2% | 13.1% | 0.0% | 12.7% | 15.6% | -10.6% | 4.4% |
| FY 2002 ⁽¹⁾ | -6.8% | -0.8% | -2.7% | 2.4% | 6.4% | -2.6% | -3.1% |
| FY 2003 ⁽²⁾ | 8.3% | 35.4% | 7.3% | 9.6% | -2.3% | 2.3% | 10.1% |
| FY 2004 ⁽³⁾ | 0.9% | 29.1% | 6.1% | 1.6% | 3.6% | -2.9% | 5.6% |
| FY 2005 ⁽³⁾ | 1.1% | 6.1% | 3.6% | 0.0% | 0.4% | -0.5% | 2.0% |

⁽¹⁾ Actual, but unaudited expenditures.

⁽²⁾ Estimated, but unaudited expenditures.

⁽³⁾ Actual appropriations as made by the 2003 Session of the General Assembly under HEA 2003-1001.
See "Financial Results of Operations."

Source: State Budget Agency

Local School Aid. Funding for elementary and secondary education is the State's largest operating expense. Local school aid is payable from both the General Fund and PTR Fund and includes distributions for programs such as assessment and performance, as well as tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the State base by appropriating one-half of the increases from the General Fund and one-half from the PTR Fund. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation enacted in 2002, the State will now provide approximately 85% of the school corporations' general fund budgets. See "Operating Expenditures—Property Tax Relief."

Local school aid formula funding for tuition support on a school corporation-by-school corporation basis increased by an average of 3.5% for Fiscal Year 2004 and will increase by an average of 1.1% for Fiscal Year 2005 when compared to Fiscal Year 2003 appropriations, with each school corporation receiving a guaranteed minimum increase of 1% in tuition support. Combined local school aid expenditures for Fiscal Year 2002 from the Combined General and PTR Fund totaled \$3,889.5 million, a decrease of 6.8% from Fiscal Year 2001, and constituted 40.1% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a legislatively mandated delay in making local school aid payments in Fiscal Year 2002. Combined local school aid appropriations for Fiscal Year 2003 from the Combined General and PTR Fund total \$4,214.3 million, an increase of 1.4% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$4,214.1 million. Local school aid appropriations for Fiscal Year 2004 from the Combined General and PTR Fund total \$4,253.6 million, an increase of 0.3% from Fiscal Year 2003 appropriations. Local school aid appropriations for Fiscal Year 2005 from the Combined General and PTR Fund total \$4,302.5 million, an increase of 1.1% from Fiscal Year 2004. See "Financial Results of Operations."

Property Tax Relief. Spending for property tax relief primarily consists of the Property Tax Relief Credit ("PTR Credits"), which has traditionally reduced local property taxes by 14% to 15%, and the Homestead Credit,

which reduces residential property taxes by 10%. Property tax relief is payable from the PTR Fund. Such expenditures for Fiscal Year 2002 totaled \$1,209.9 million, a decrease of 0.8% from Fiscal Year 2001, and constituted 12.5% of Combined General and PTR Fund expenditures for Fiscal Year 2002 for this category. Actual expenditures for property tax relief in Fiscal Year 2002 constituted 102.6% of appropriations. This increase in expenditures is a result of changes to the Property Tax Relief Credit, increasing the Homestead Credit to 20%, and increasing local school aid. Property tax relief appropriations for Fiscal Year 2003 totaled \$1,731.4 million, an increase of 46.8% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$1,638.5 million, making property tax relief the second largest operating expenditure. Property tax relief appropriations for Fiscal Year 2004 total \$2,115.2 million, an increase of 22.2% from Fiscal Year 2003. Property tax relief appropriations for Fiscal Year 2005 total \$2,243.9 million, an increase of 6.1% from Fiscal Year 2004.

Legislation passed in 2002 replaces the PTR Credits with a 60% credit for school corporations' general fund tax levy on local property taxes through a State-paid Property Tax Replacement Credit as of January 1, 2003. This measure effectively increases the percentage of local school corporations' general fund budgets paid by the State from approximately 66% to approximately 85%. Additionally, the legislation increased the Homestead Credit from 10% to 20%, beginning in 2003. See "Operating Expenditures—Local School Aid."

Higher Education. Through the General Fund, the State supports seven higher education institutions, Ball State University, Indiana University, Indiana State University, Ivy Tech State College, Purdue University, University of Southern Indiana and Vincennes University. Expenditures for higher education for Fiscal Year 2002 totaled \$1,294.7 million, a decrease of 2.7% from Fiscal Year 2001, and constituted 13.3% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a delay in making higher education aid payments in Fiscal Year 2002. Higher education appropriations for Fiscal Year 2003 total \$1,411.1 million, an increase of 0.01% when compared to Fiscal Year 2002; however, estimated expenditures for Fiscal Year 2003 are \$1,389.4 million, making higher education the third largest operating expenditure. Higher education appropriations for Fiscal Year 2004 total \$1,474.4 million, an increase of 4.5% from Fiscal Year 2003. Higher education appropriations for Fiscal Year 2005 total \$1,527.7 million, an increase of 3.6% from Fiscal Year 2004. Appropriations for higher education include money used to pay debt service and other amounts on qualified state university and college debt. See "Financial Results of Operations" and "STATE INDEBTEDNESS."

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund, is the State's share of Medicaid assistance. State General Fund expenditures for Medicaid assistance for Fiscal Year 2004 totaled \$1,138.0 million, an increase of 2.4% from Fiscal Year 2003, and constituted 11.7% of the Combined General and PTR Fund expenditures for Fiscal Year 2004. Actual expenditures for Medicaid assistance in Fiscal Year 2004 constituted 92.7% of appropriations for the category. Estimated expenditures for Medicaid assistance in Fiscal Year 2005 are \$1,350.0 million, resulting in an estimated \$130.9 million shortfall, as shown on Table IV-3. See "Financial Results of Operations."

In Fiscal Year 2003, 25.6% of Medicaid assistance spending was funded from the General Fund. State dedicated funds and Federal funds constitute the balance of Medicaid spending. Nursing home care is the largest component of total Medicaid spending (state and federal), about \$787.2 million for Fiscal Year 2003, an increase of 1.0% from Fiscal Year 2003. Prescription drug costs are the second largest component of total Medicaid spending, with costs of \$732.9 million in Fiscal Year 2003, an increase of 15.7% from Fiscal Year 2003. Hospital services is the third largest component of total Medicaid spending, about \$561.2 million for Fiscal Year 2003, an increase of 7.7% from Fiscal Year 2003.

Medicaid enrollment is one of the most significant drivers of Medicaid costs. Medicaid enrollment steadily increased from 454,643 people in 1998 to 803,722 people in 2004, or at an average annual rate of 7.3%. Enrollment is expected to grow to 833,937 in 2005, or 3.6%.

Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation and parole programs. State General Fund expenditures for Correction for Fiscal Year 2002 totaled \$582.1 million, an increase of 6.4% from Fiscal Year 2001, and constituted 6.0% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Correction in Fiscal Year 2002 constituted 102.9% of appropriations for this category. This increase is a result of transferring the medical services fund from the State

Family and Social Services Agency to the Department of Correction. Correction appropriations for Fiscal Year 2003 total \$569.0 million, an increase of 0.5% from Fiscal Year 2002. Estimated expenditures for Correction for Fiscal Year 2003 are \$569.0 million. Correction appropriations for Fiscal Year 2004 total \$589.3 million, an increase of 3.6% from Fiscal Year 2003. Correction appropriations for Fiscal Year 2005 total \$591.4 million, an increase of 0.4% from Fiscal Year 2004.

Population is the most significant driver of Correction expenditures. Correctional population steadily increased from 19,720 in 1998 to 24,230 in 2003, or at an average annual rate of 4.2%.

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. General Fund expenditures for all other expenditure categories for Fiscal Year 2002 totaled \$1,592.9 million, a decrease of 2.6% from Fiscal Year 2001, and constituted 16.4% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Other Categories in Fiscal Year 2002 constituted 93.7% of appropriations for the category. Other Categories appropriations for Fiscal Year 2003 from the General Fund total \$1,872.5 million, an increase of 10.2% from Fiscal Year 2002. Other Categories appropriations for Fiscal Year 2004 from the General Fund total \$1,581.9 million, a decrease of 15.5% from Fiscal Year 2003. Estimated expenditures for Fiscal Year 2003 are \$1,629.5 million. Other Categories appropriations for Fiscal Year 2005 from the General Fund total \$1,573.9 million, a decrease of 0.5% from Fiscal Year 2004.

Expenditure Limits. In 2002, the General Assembly enacted a law that provides that the maximum annual percentage change in State government expenditures must be based on the percentage change in Indiana non-farm personal income during the past six calendar years. The law excludes expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments and settlements, distributions of specified State tax revenue to local governments and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund and the Rainy Day Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income and six percent. The legislation allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The spending cap limits expenditure increases to 3.5% per annum for each of Fiscal Year 2004 and Fiscal Year 2005.

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the Tuition Reserve, the Combined General and PTR Fund and the Medicaid Reserve and Contingency Account. Each of these funds is described below.

Rainy Day Fund. In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the "Rainy Day Fund." One of three primary funds into which general purpose tax revenue is deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. No automatic withdrawal from the Rainy Day Fund has occurred; however, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time

to time during periods of economic recession. In addition, the General Assembly has authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. *See* “Financial Results of Operations.”

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenue is less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year, and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenue for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the PTR Fund. *See* Table IV-3 for Rainy Day Fund balances.

Tuition Reserve. The Tuition Reserve is a cash flow device that is intended to assure that the State has sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimates and establishes the Tuition Reserve for the ensuing Fiscal Year. *See* Table IV-3 for Tuition Reserve Fund balances.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. The Medicaid Reserve is currently unfunded; in 2001, the General Assembly authorized the money in the Medicaid Reserve to be used to fund Medicaid obligations during Fiscal Years 2002 and 2003. *See* Table IV-3 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in Fiscal Year 1973. It is funded from revenue from the State sales and use tax, a portion of individual income tax receipts and wagering taxes. The PTR Fund is used to (1) replace local property tax levies (“PTR Credits”), which were reduced through PTR Credits under the same statute that created the PTR Fund; and (2) fund local school aid. To the extent the PTR Fund does not have sufficient revenue to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenue, or Operating Revenue, is deposited or transferred. It is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State’s Operating Revenue and discretionary spending, especially for local school aid and property tax relief. As a result, the General Fund and the PTR Fund are sometimes discussed in this Statement as a single, combined fund.

Financial Results of Operations

Fiscal Years 2002 and 2003. The General Assembly passed a State budget for Fiscal Years 2002 and 2003 that called for Combined General and PTR Fund spending of \$10,211.9 million in Fiscal Year 2002 (an increase of 1.6% from FY 2001), and \$10,497.8 million in Fiscal Year 2003 (an increase of 2.8% from FY 2002). However, as the national economic recession took hold, forecasted Operating Revenue was hard hit. The recession effectively erased approximately \$1,640.0 million of forecasted Operating Revenue during Fiscal Years 2002 and 2003. (Forecasted Operating Revenue does not include dedicated funds and accounts available to be appropriated, and in some cases actually appropriated or authorized to be used for budget purposes.)

Fiscal Year 2002. To address the revenue shortfall and fund the budget in Fiscal Year 2002, the State administration used general statutory authority and measures specifically authorized in the biennial budget, including transfers from the following funds and accounts to the General Fund:

| | |
|---------------------------------------|-----------------|
| Lottery and Gaming Surplus Account | \$200.0 million |
| Rainy Day Fund | 277.1 million |
| Medicaid Reserve and Contingency Fund | 100.0 million |

In addition, the Finance Board authorized transfers from a number of dedicated funds and accounts to the General Fund and the PTR Fund:

| | |
|--|-----------------|
| Build Indiana Fund | \$247.5 million |
| Veterans Memorial School Construction Fund | 37.0 million |
| State Highway Fund | 30.0 million |
| Other Dedicated Funds, Accounts | 127.0 million |

(All but \$45.2 million of the \$441.5 million of Finance Board-authorized transfers were used in Fiscal Year 2002.)

The State also delayed making \$373.8 million of local school aid and higher education payments in Fiscal Year 2002.

In addition to the transfers and payment delays, the State administration required agencies to cut their operating budgets by 7% and implemented hiring and salary freezes, resulting in \$145.1 million of reduced spending in Fiscal Year 2002 (excluding reductions in forecasted Medicaid spending).

At the end of Fiscal Year 2002, the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) was \$534.2 million or 6.1% of Operating Revenue (that is, tax revenue, certain fees and DSH revenue deposited in the General Fund or the PTR Fund). See Table IV-3 for actual Fiscal Year 2002 results, including actual Operating Revenue, transfers and fund balances.

Fiscal Year 2003. Near the end of Fiscal Year 2002, the General Assembly met in Special Session and passed HEA 1001-2002 (ss), which included a then estimated \$559.7 million in budget relief as well as substantial tax restructuring. Higher sales and use taxes and increased taxes on gaming and tobacco products were designed to address the revenue shortfall, fund the budget and offset much of the cost of the tax restructuring. Streamlined corporate income taxes and the phase out of personal property taxation of business inventories were designed to encourage business investment. Additional property tax relief for homeowners was expected to reduce potentially negative effects of the state-wide property tax reassessment, which is complete in some, but not all, counties. (Property tax relief expenditures are expected to increase in the future.)

Even taking into account forecasted increases in Operating Revenue resulting from the enactment of HEA 1001-2002 (ss), the Fiscal Year 2003 budget continued to be a challenge. The soft economy, threat of war, war, and worse than normal winter weather resulted in lower than forecasted sales and use tax revenue. The State administration again used general statutory authority and measures specifically authorized in the biennial budget to reduce the budget deficit, including fund and account transfers, payment delays (another \$336.7 million in Fiscal Year 2003) and spending cuts. The Budget Agency achieved Fiscal Year 2003 reversions totaling \$323.4 million through reduced spending by State agencies (including holding Medicaid spending to below forecast), and elimination of unspent capital and operating accounts. By the end of Fiscal Year 2003, the State administration reduced Medicaid spending from forecast by \$250.0 million.

At the end of Fiscal Year 2003, the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) was \$720.1 million or 7.2% of Operating Revenue (that is, tax revenue, certain fees and DSH revenue deposited in the General Fund or the PTR Fund).

The reserves were higher than estimated at the end of the 2003 session of the General Assembly because the State received \$103.4 million in new federal aid, and property reassessment delays in some Indiana counties meant that property tax relief payments were lower by \$101.1 million.

During Fiscal Year 2003, Indiana received 13.4% more Operating Revenue than it received in Fiscal Year 2002. When revenue generated by tax increases enacted by the General Assembly in June 2002 is subtracted, revenue grew by 1.5%. Growth in Operating Revenue in Fiscal Year 2003 ended a two Fiscal Year period in which actual Operating Revenue decreased.

See Table IV-3 for actual Fiscal Year 2003 results, including State Operating Revenue, transfers and fund balances.

Fiscal Years 2004 and 2005. The General Assembly passed a State budget for Fiscal Years 2004 and 2005 that authorized Combined General and PTR Fund spending of \$11,280.7 million in Fiscal Year 2004 (an increase of 1.9% from Fiscal Year 2003) and \$11,505.8 million in Fiscal Year 2005 (an increase of 2.0% from Fiscal Year 2004).

Budget Challenges. The biennial budget was based on forecasted Fiscal Year 2004 revenue of \$10,692.5 million (an increase of 8.2% from final forecasted Fiscal Year 2003 revenue) and forecasted Fiscal Year 2005 revenue of \$11,192.3 million (an increase of 4.7% from forecasted Fiscal Year 2004 revenue). That forecast of revenue is referred to below as the “Budget Forecast.” The forecasted revenue increase for Fiscal Year 2004 reflected the implementation of the Fiscal Year 2002 tax increases and expected improvements in the national economy, while the revenue increase for Fiscal Year 2005 primarily reflected expected improvements in the national economy. (If the implementation of the Fiscal Year 2002 tax increases were not taken into account, the increase in forecasted revenue for Fiscal Year 2004 would be 3.1% higher than final forecasted Fiscal Year 2003 revenue.)

The General Assembly authorized more spending than the Budget Forecast would permit. To balance the budget, the General Assembly also authorized the transfer of dedicated funds to the General Fund or the PTR Fund, including:

| | |
|-------------------------------|-----------------|
| Rainy Day Fund | \$220.0 million |
| Pension Stabilization Fund | 380.0 million |
| Public Deposit Insurance Fund | 50.0 million |
| Other Dedicated Funds | 57.0 million |

In addition, the General Assembly specifically authorized the Budget Agency, with the approval of the Governor and after Budget Committee review, (a) “to withhold allotments of any or all appropriations . . . , if it is considered necessary . . . to prevent a deficit financial situation” and (b) transfer from the Rainy Day Fund to the General Fund “an amount necessary to maintain a positive balance” in the General Fund. (Rainy Day Fund balances may not be sufficient to provide further budget relief.)

Funding the State share of Medicaid assistance and Department of Correction needs are two of the challenges the State administration confronts in managing the biennial budget. The General Assembly effectively maintained Medicaid appropriations for Fiscal Years 2004 and 2005 at Fiscal Year 2003 levels and limited growth in Correction appropriations for the budget biennium. However, \$130.9 million of new federal aid benefited the Medicaid program in Fiscal Year 2004. In addition, another \$103.4 million of federal aid was made available in Fiscal Year 2004 for limited budget relief.

Based on the Budget Forecast and expected additional federal aid, the Budget Agency estimated that the State’s Total Combined Balance would be \$577.9 million or 5.3% of Operating Revenue at the end of Fiscal Year 2004 and \$516.0 million or 4.6% of Operating Revenue at the end of Fiscal Year 2005.

January Forecast. On January 12, 2004, the State’s Technical Forecast Committee revised the Budget Forecast (as revised, the “January Forecast”). The January Forecast indicated that the State would receive \$230.8 million less Operating Revenue in Fiscal Year 2004, and \$222.6 million less Operating Revenue in Fiscal Year 2005 than previously forecast. Most of the reduction in forecasted Operating Revenue was attributable to lower than expected sales and use tax receipts. The Economic Forecast Committee’s January 12 report indicated that, while Indiana’s economy is recovering from the national economic recession, the recovery has not come as quickly or as strongly as anticipated when the Budget Forecast was made.

As a result of the January Forecast, additional property tax relief costs and action taken by the General Assembly in 2004, the Budget Agency estimated that the State’s Total Combined Balance would be \$261.8 million (or 2.5%) of Operating Revenue at the end of Fiscal Year 2004 and \$60.8 million (or 0.6%) of Operating Revenue at the end of Fiscal Year 2005.

Budget Management. After adoption of the biennial budget, the Budget Agency advised State agencies receiving General Fund appropriations that it would reduce through the allotment process (i) 5.0% of each agency's appropriation for Fiscal Years 2004 and 2005, and (ii) 50.0% of repair and rehabilitation appropriations for such Fiscal Years. This Budget Agency advice is not applicable to Medicaid program or Correction expenditures. In addition, the Budget Agency is withholding a substantial amount of the repair and rehabilitation appropriations to the State's universities and colleges.

Following receipt of the January Forecast, Governor Kernan said that he would manage the budget and make whatever decisions are necessary to end Fiscal Year 2004 and Fiscal Year 2005 with a positive balance in the General Fund.

Fiscal Year 2004 Results

The State ended Fiscal Year 2004 with larger balances than estimated at the time of the January Forecast. This resulted from stronger than estimated Operating Revenue and lower than expected expenditures, including those for Medicaid assistance and property tax relief. At the end of Fiscal Year 2004, the State's Total Combined Balance was \$532.8 million (or 5.0%) of Operating Revenue. At the end of Fiscal Year 2005, the Budget Agency expects the State's Total Combined Balance to be \$337.1 million (or 3.0%) of Operating Revenue. See Table IV-3 for actual Fiscal Year 2004 and estimated Fiscal Year 2005 results, including estimated State Operating Revenue, transfers and fund balances. Note that some of the Rainy Day Fund balance is comprised of loans to local governments. Those loans are illiquid.

Fiscal Year 2004 Revenue v. Fiscal Year 2003 Revenue Growth

The State collected \$739.6 million (or 7.5%) more revenue in Fiscal Year 2004 than it collected in Fiscal Year 2003. See "Major General Fund and PTR Fund Revenue Sources."

The State saw substantial growth in sales and use tax, individual income tax and gaming tax revenue during Fiscal Year 2004 when compared with Fiscal Year 2003:

| | |
|-------------------|--|
| Sales and Use | \$548.6 million (an increase of 13.1%) |
| Individual Income | 163.7 million (4.5%) |
| Gaming | 170.8 million (39.7%) |

Increases in sales and use tax and gaming tax revenue primarily reflect the increased sales and use tax rate (effective December 1, 2002) and restructuring of wagering taxes (effective July 1, 2002).

Fiscal Year 2004 corporate income tax and other revenue declined by \$84.5 million (or 11.6%) and \$58.8 million (or 6.5%), respectively. Corporate income taxation was also restructured in Fiscal Year 2002, effective January 1, 2003.

Combined Balance Statements

Table IV-3 sets forth the Budget Agency's unaudited end-of-year combined balance statements and estimates and projections, including revenue and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency's "working" statements may differ from the results included in the 2002 Financial Report or the Auditor of State's comprehensive annual financial reports for other Fiscal Years, as applicable. Forecasted revenue was developed by the Technical Forecast Committee, and actual revenue may be higher or lower than forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2004 and 2005.

Table IV-3
General Fund and Property Tax Replacement Fund
Combined Statement of Net Actual and Estimated Unappropriated Reserve
(Millions of Dollars)

| | Actual FY2001 | Actual FY2002 | Actual FY2003 | Actual FY2004 | (1) Estimated FY2005 |
|---|------------------|------------------|------------------|------------------|----------------------------|
| Resources | | | | | |
| Working Balance on July 1 | 832.6 | 18.6 | 0.0 | 136.6 | 0.2 |
| Current Year Resources | | | | | |
| Forecast Revenue | 9,052.0 | 8,708.9 | 9,880.1 | 10,619.9 | 11,001.9 |
| DSH Revenue | 70.9 | 87.0 | 65.0 | 64.2 | 66.4 |
| Enrolled Acts 2003 | - | - | - | - | 2.0 |
| Enrolled Acts 2004 | - | - | - | - | 22.5 |
| Other Revenue Sources of Transfers In | | | | | |
| Jobs & Growth Tax Relief Reconciliation Act of 2003 | - | - | 103.4 | 103.4 | - |
| Jobs & Growth Tax Relief Reconciliation Act of 2003 (Medicaid) | - | - | - | 130.9 | - |
| Transfer from Lottery & Gaming Surplus Acct (BIF) | - | 200.0 | 175.0 | - | - |
| Transfer from Medicaid Reserve to General Fund | 103.4 | 100.0 | - | - | - |
| Transfer from Dedicated Fund Balances | - | 396.3 | 222.0 | 130.2 | 85.9 |
| Transfer from Tuition Reserve | - | - | - | 14.5 | - |
| Transfer From (To) Rainy Day Fund | 46.3 | 277.1 | - | 44.3 | 200.0 |
| Total Current Year Resources | 9,272.6 | 9,769.3 | 10,445.5 | 11,107.4 | 11,378.7 |
| Total Resources | 10,105.2 | 9,787.9 | 10,445.5 | 11,244.0 | 11,378.9 |
| Uses: Appropriations, Expenditures and Reversions | | | | | |
| Appropriations | | | | | |
| Budgeted Appropriations | 10,159.3 | 10,211.9 | 11,000.1 | 11,280.8 | 11,505.8 |
| Adjustments to Appropriations ⁽²⁾ | (15.7) | 93.1 | 22.7 | 47.5 | - |
| Deficiency Appropriations | 66.8 | 0.1 | 19.4 | - | - |
| Appropriations Transfer (FY 2000 capital appropriations) | (88.3) | - | - | - | - |
| Medicaid Shortfall | 58.5 | - | - | - | 130.9 |
| Higher Education, HEA 1196 – 2002 | - | - | (29.0) | - | - |
| K-12 Education, HEA 1196 – 2002 | - | - | (119.1) | - | - |
| Total Appropriations | 10,180.6 | 10,305.1 | 10,894.0 | 11,328.3 | 11,636.7 |
| Other Expenditures and Transfers | | | | | |
| Enrolled Acts 2004 | - | - | - | - | 20.3 |
| Transfer to Lottery and Gaming Surplus Acct (BIF) (MVET) | - | - | 131.8 | - | - |
| Transfer to Tuition Reserve | - | - | 40.0 | - | - |
| Undistributed PTRC and Homestead Credit | - | - | (101.1) | - | - |
| Tuition Support Adjustments | - | - | - | (7.1) | - |
| PTRC and Homestead Credit Adjustments | - | - | - | (18.4) | 18.1 |
| Judgments and Settlements ⁽³⁾ | 7.0 | 3.8 | 6.2 | 5.4 | 8.0 |
| Total Appropriations and Expenditures | 10,187.6 | 10,308.9 | 10,970.9 | 11,308.2 | 11,683.1 |
| Payment Delays | | | | | |
| Higher Education Allotment | - | (94.2) | (2.2) | (2.2) | (3.1) |
| Tuition Support Distribution | - | (279.5) | (20.0) | (0.6) | (0.6) |
| Property Tax Replacement Credit | - | - | (314.5) | - | - |
| Reversions | (102.9) | (145.1) | (323.4) | (63.4) | (301.3) |
| Total Net Uses | 10,084.7 | 9,790.1 | 10,310.7 | 11,241.9 | 11,378.1 |
| Auditor's Adjustment | 1.9 | (2.2) | (1.8) | 1.9 | - |
| General Fund Reserve Balance at June 30 | 18.6 | 0.0 | 136.6 | 0.2 | 0.8 |
| Reserved Balances | | | | | |
| Medicaid Reserve | 100.0 | - | - | - | - |
| Tuition Reserve | 265.0 | 265.0 | 305.0 | 290.5 | 290.5 |
| Rainy Day Fund ⁽⁴⁾ | 526.0 | 269.2 | 278.5 | 242.2 | 45.8 |
| Total Combined Balances | 909.6 | 534.2 | 720.1 | 532.8 | 337.1 |
| Payment Delay Liability | - | (373.8) | (710.5) | (713.3) | (717.0) |
| Combined Balance as a Percent of Operating Revenue | 10.0% | 6.1% | 7.2% | 5.0% | 3.0% |
| Totals may not add as a result of rounding. | | | | | |

- ¹ Forecasted revenue is based on information provided by the Technical Forecast Committee, while other resources and uses are estimated by the Budget Agency.
- ² Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total. FY 2003 includes an additional appropriation of \$135.0 million for motor vehicle excise tax-related obligations not met through the Lottery and Gaming Surplus Account.
- ³ Represents the estimated cost to the State of judgments and other legal and equitable claims. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. *See* "LITIGATION."
- ⁴ Includes \$27.6 million of loans to local governments authorized by the General Assembly. The loans are illiquid.

Source: State Budget Agency

V. STATE INDEBTEDNESS

Constitutional Limitations on State Debt

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except to meet casual deficits in revenue; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the State constitution. *See* "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as "contingent obligations." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. *See* "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the State Office Building Commission, the Indiana Transportation Finance Authority and the Recreational Development Commission, which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any such financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission (the "Building Commission") is authorized pursuant to Indiana Code 4-13.5 to issue revenue bonds to finance or refinance the cost of acquiring, constructing and equipping of buildings, structures, improvements or parking areas owned or leased by the Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure

or improvement for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing regional health facilities; (f) providing communications system infrastructure; and (g) providing laboratory facilities.

Pursuant to this general authority, as well as specific findings of need and authorizations by the General Assembly, the Building Commission has issued revenue bonds to finance or refinance various projects. For a list of the indebtedness of the Building Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

The Building Commission also provides short-term, or construction, financing for authorized projects through issuance and sale of “Hoosier Notes.” Hoosier Notes are payable from proceeds of revenue bonds issued by the Building Commission.

Transportation Finance Authority—Highway Financing. The Indiana Transportation Finance Authority (the “TFA”) was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to (a) undertake projects to construct, acquire, reconstruct, improve and extend the State’s highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State’s highways, bridges, streets and roads throughout Indiana. For a list of the indebtedness of the TFA for Highway Financing, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

Transportation Finance Authority—Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines “aviation related property or facilities” as those properties or facilities that are utilized by a lessee, or a lessee’s assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. Pursuant to this authority, the TFA issued revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the “Airport Facilities”). For a list of the indebtedness of the TFA for Airport Facilities, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Aviation Technology Center. In addition, the TFA issued revenue bonds to finance the costs of constructing and equipping an aviation technology center (the “Aviation Technology Center”) at Indianapolis International Airport. For a list of the indebtedness of the TFA for the Aviation Technology Center, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing” and Table V-5.

Recreational Development Commission. The Recreational Development Commission (the “Recreation Commission”) was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State’s Department of Natural Resources (the “DNR”) may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State (the “Park Projects”). For a list of the indebtedness of the Recreation Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Bond Bank. The Indiana Bond Bank issued two series of bonds which are also payable from possible State appropriations. Proceeds of these issues were used to finance or refinance State interests or initiatives, including the State’s Animal Disease and Diagnostic Laboratory (“ADDL”) at Purdue University, West Lafayette, and the Columbus Learning Center (“CLC”), an educational facility to be used by a number of State post-secondary educational institutions to provide services in South Central Indiana. *See* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, *see* “Contingent Obligations—Indiana Bond Bank” and Table V-5.

Debt Statement—Obligations Payable from Possible State Appropriations

Table V-1 lists, by issuing agency, long-term debt that is subject to possible State appropriations as of June 30, 2003. *See* “Debt Issued in Fiscal Year 2004” and “Authorized but Unissued Debt.”

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Table V-1
Schedule of Long Term Debt
Obligations Payable from Possible State Appropriations

| Issuer/Series | Original Par Amount | Ending Balance 6/30/03 | (Redeemed)/ Issued | Ending Balance 6/30/04 |
|---|-------------------------|------------------------------|-----------------------|------------------------------|
| Building Commission | | | | |
| Government Center Parking Facilities | | | | |
| Series 1990A | \$ 26,669,824 | \$ 9,183,309 | \$ (574,669) | \$ 8,608,640 |
| Series 1993A | 42,410,000 | 29,140,000 | (29,140,000) | 0 |
| Series 2003A | 26,735,000 | - | 26,735,000 | 26,735,000 |
| Subtotal | \$ 95,814,824 | \$ 38,323,309 | \$ (2,979,669) | \$ 35,343,640 |
| Government Center North | | | | |
| Series 1990B | \$ 77,123,542 | \$ 28,484,621 | \$ (1,782,251) | \$ 26,702,370 |
| Series 1993B | 107,555,000 | 80,750,000 | (80,750,000) | - |
| Series 2003B | 73,205,000 | - | 73,205,000 | 73,205,000 |
| Subtotal | \$ 257,883,542 | \$ 109,234,621 | \$ (9,327,251) | \$ 99,907,370 |
| Government Center South | | | | |
| Series 1990C | \$ 18,063,800 | \$ 6,216,290 | \$ (388,290) | \$ 5,828,000 |
| Series 1990D | 110,675,000 | 53,710,000 | - | 53,710,000 |
| Series 1993C | 28,440,000 | 8,235,000 | (8,235,000) | 0 |
| Series 2000B | 43,400,000 | 36,100,000 | (6,900,000) | 29,200,000 |
| Series 2003C | 7,835,000 | - | 7,835,000 | 7,835,000 |
| Subtotal | \$ 208,413,800 | \$ 104,261,290 | \$ (7,688,290) | \$ 96,573,000 |
| Other Facilities | | | | |
| Series 1995A | \$ 54,025,000 | \$ 51,865,000 | \$ (50,800,000) | \$ 1,065,000 |
| Series 1995B | 47,975,000 | 42,755,000 | (20,335,000) | 22,420,000 |
| Series 1998A | 93,020,000 | 86,305,000 | (4,455,000) | 81,850,000 |
| Series 1999A | 96,785,000 | 87,655,000 | (51,295,000) | 36,360,000 |
| Series 2000A | 44,800,000 | 41,600,000 | (1,700,000) | 39,900,000 |
| Series 2001A | 66,600,000 | 66,600,000 | (1,800,000) | 64,800,000 |
| Series 2002A | 128,110,000 | 128,110,000 | (67,395,000) | 60,715,000 |
| Series 2003A | 83,530,000 | 83,530,000 | (35,505,000) | 48,025,000 |
| Series 2003B | 31,930,000 | - | 31,930,000 | 31,930,000 |
| Series 2003C | 55,075,000 | - | 55,075,000 | 55,075,000 |
| Series 2003D | 20,475,000 | - | 20,475,000 | 20,475,000 |
| Series 2004A | 46,180,000 | - | 46,180,000 | 46,180,000 |
| Series 2004B | 61,890,000 | - | 61,890,000 | 61,890,000 |
| Series 2004C | 33,950,000 | - | 33,950,000 | 33,950,000 |
| Subtotal | \$ 864,345,000 | \$ 588,420,000 | \$ 16,215,000 | \$ 604,635,000 |
| TOTAL SOBC | \$ 1,426,457,166 | \$ 840,239,220 | \$ (3,780,210) | \$ 836,459,010 |
| Transportation Finance Authority | | | | |
| Highway Revenue Bonds | | | | |
| Series 1990A | \$ 72,498,391 | \$ 32,700,877 | \$ (1,519,609) | \$ 31,181,268 |
| Series 1992A | 74,035,000 | 35,285,000 | - | 35,285,000 |
| Series 1993A | 193,531,298 | 131,891,298 | (7,660,000) | 124,231,298 |
| Series 1996B | 27,110,000 | 23,235,000 | (2,845,000) | 20,390,000 |
| Series 1998A | 175,360,000 | 169,010,000 | (3,395,000) | 165,615,000 |
| Series 2000A | 269,535,000 | 267,035,000 | (2,500,000) | 264,535,000 |
| Series 2003A | 431,585,000 | - | 431,585,000 | 431,585,000 |
| Series 2004A | 320,550,000 | - | 320,550,000 | 320,550,000 |
| Subtotal | \$ 1,564,204,689 | \$ 659,157,175 | \$ 734,215,391 | \$ 1,393,372,566 |
| Airport Facilities Bonds | | | | |
| Series 1992A | \$ 201,320,000 | \$ 40,075,000 | \$ (7,060,000) | \$ 33,015,000 |
| Series 1995A | 29,720,000 | 25,735,000 | (1,070,000) | 24,665,000 |
| Series 1996A | 137,790,000 | 136,250,000 | (835,000) | 135,415,000 |
| Subtotal | \$ 368,830,000 | \$ 202,060,000 | \$ (8,965,000) | \$ 193,095,000 |
| Aviation Technology Bonds | | | | |
| Series 2002A | \$ 10,095,000 | \$ 10,095,000 | \$ (265,000) | \$ 9,830,000 |
| Subtotal | \$ 10,095,000 | \$ 10,095,000 | \$ (265,000) | \$ 9,830,000 |
| TOTAL TFA | \$ 1,943,129,689 | \$ 871,312,175 | \$ 724,985,391 | \$ 1,596,297,566 |
| Recreation Commission | | | | |
| Series 1994 | \$ 19,285,000 | \$ 7,775,000 | \$ (170,000) | \$ 7,605,000 |
| Series 1997 | 6,600,000 | 5,555,000 | (235,000) | 5,320,000 |
| Series 2002 | 14,400,000 | 14,400,000 | - | 14,400,000 |
| Subtotal | \$ 40,285,000 | \$ 27,730,000 | \$ (405,000) | \$ 27,325,000 |

| | | | | |
|---------------------|------------------|------------------|----------------|------------------|
| TOTAL RDC | \$ 40,285,000 | \$ 27,730,000 | \$ (405,000) | \$ 27,325,000 |
| Bond Bank | | | | |
| Series 1998B (ADDL) | \$ 10,830,000 | \$ 7,285,000 | \$ (725,000) | \$ 6,560,000 |
| Series 2003D (CLC) | 27,515,000 | 27,515,000 | | 27,515,000 |
| Subtotal | \$ 38,345,000 | \$ 34,800,000 | \$ (725,000) | \$ 34,075,000 |
| TOTAL BOND BANK | \$ 38,345,000 | \$ 34,800,000 | \$ (725,000) | \$ 34,075,000 |
| TOTAL ALL BONDS | \$ 3,448,216,855 | \$ 1,774,081,395 | \$ 720,075,181 | \$ 2,494,156,576 |

Source: State Budget Agency (as of June 30, 2004)

Debt Service Schedule—Obligations Payable from Possible State Appropriations

Table V-2 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased) as of June 30, 2004. See “Debt Issued in Fiscal Year 2005” and “Authorized but Unissued Debt.”

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Table V-2
Scheduled Principal and Interest Payments
Payable from Possible State Appropriations

| Issuer/Series | FY 2005 | FY 2006 | FY 2007 | FY 2008 | Thereafter |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| Building Commission | | | | | |
| Government Center Parking | | | | | |
| Series 1990A | \$ 1,948,050 | \$ 1,948,050 | \$ 1,948,050 | \$ 1,948,050 | \$ 10,869,525 |
| Series 2003A | 1,536,213 | 3,704,525 | 3,702,775 | 3,696,763 | 19,559,806 |
| Subtotal | \$ 3,484,263 | \$ 5,652,575 | \$ 5,650,825 | \$ 5,644,813 | \$ 30,429,331 |
| Government Center North | | | | | |
| Series 1990B | \$ 6,041,880 | \$ 6,041,880 | \$ 6,041,880 | \$ 6,041,880 | \$ 33,716,040 |
| Series 2003B | 3,728,553 | 8,615,990 | 8,633,928 | 8,580,178 | 68,255,966 |
| Subtotal | \$ 9,770,433 | \$ 14,657,870 | \$ 14,675,808 | \$ 14,622,058 | \$ 101,972,006 |
| Government Center South | | | | | |
| Series 1990C | \$ 1,317,090 | \$ 1,317,090 | \$ 1,317,090 | \$ 1,317,090 | \$ 7,360,885 |
| Series 1990D | 3,705,990 | 3,705,990 | 10,976,205 | 10,953,868 | 43,616,533 |
| Series 2000B ⁽¹⁾ | 8,461,500 | 8,319,000 | 976,500 | 1,065,000 | 17,808,000 |
| Series 2003C | 340,863 | 877,813 | 877,625 | 875,488 | 6,964,194 |
| Subtotal | \$ 13,825,443 | \$ 14,219,893 | \$ 14,147,420 | \$ 14,211,446 | \$ 75,749,612 |
| Correctional Facilities | | | | | |
| Series 1995A | \$ 559,588 | \$ 558,489 | \$ - | \$ - | \$ - |
| Series 1995B | 2,839,295 | 2,835,035 | 1,206,875 | 1,206,875 | 25,726,563 |
| Series 1998A | 8,560,298 | 8,554,491 | 8,530,004 | 8,538,279 | 76,523,288 |
| Series 1999A | 4,856,663 | 3,476,138 | 5,398,750 | 5,393,594 | 32,449,638 |
| Series 2000A ⁽¹⁾ | 4,000,500 | 3,993,000 | 3,979,500 | 3,865,500 | 45,447,000 |
| Series 2001A ⁽¹⁾ | 5,675,488 | 5,662,877 | 5,637,321 | 5,706,425 | 84,123,950 |
| Series 2002A | 2,928,511 | 2,978,511 | 7,622,418 | 7,618,499 | 70,138,206 |
| Series 2003A | 3,145,640 | 2,285,115 | 5,095,203 | 5,065,465 | 57,811,948 |
| Series 2003B | 1,647,631 | 1,385,858 | 2,555,584 | 2,555,123 | 43,051,355 |
| Series 2003C ⁽¹⁾ | 1,101,500 | 1,101,500 | 3,243,306 | 3,304,500 | 88,212,250 |
| Series 2003D ⁽¹⁾ | 409,500 | 409,500 | 1,424,000 | 3,155,000 | 28,364,500 |
| Series 2004A | 1,959,989 | 2,416,425 | 2,470,875 | 2,479,675 | 61,165,163 |
| Series 2004B | 2,635,483 | 3,249,225 | 3,249,225 | 3,249,225 | 41,861,725 |
| Series 2004C | 1,443,198 | 1,779,285 | 1,779,285 | 1,779,285 | 51,260,808 |
| Subtotal | \$ 41,763,284 | \$ 40,685,449 | \$ 52,192,345 | \$ 53,917,445 | \$ 706,136,394 |
| TOTAL SOBC | \$ 68,843,423 | \$ 75,215,787 | \$ 86,666,398 | \$ 88,395,762 | \$ 914,287,343 |
| TFA | | | | | |
| Highway Revenue Bonds | | | | | |
| Series 1990A | \$ 6,150,288 | \$ 4,255,288 | \$ 4,095,288 | \$ 3,940,288 | \$ 37,909,913 |
| Series 1992A | 2,399,380 | 2,399,380 | 2,399,380 | 2,399,380 | 49,111,610 |
| Series 1993A | 13,858,773 | 12,608,425 | 12,608,850 | 12,620,300 | 165,155,113 |
| Series 1996B | 3,981,450 | 3,961,450 | 3,958,550 | 3,947,125 | 7,879,250 |
| Series 1998A | 12,088,328 | 18,669,828 | 18,676,448 | 18,790,148 | 131,056,541 |
| Series 2000A | 16,982,801 | 14,425,301 | 14,425,301 | 14,425,301 | 463,706,180 |
| Series 2003A | 25,790,359 | 30,714,859 | 31,683,859 | 31,691,271 | 633,482,361 |
| Series 2004A | 16,333,300 | 16,752,103 | 16,752,103 | 16,752,103 | 629,443,988 |
| Subtotal | \$ 97,584,678 | \$ 103,786,633 | \$ 104,599,778 | \$ 104,565,916 | \$ 2,117,744,956 |
| Airport Facilities Bonds | | | | | |
| Series 1992A | \$ 9,704,613 | \$ 10,040,600 | \$ 1,026,875 | \$ 1,026,875 | \$ 24,131,563 |
| Series 1995A | 2,512,723 | 2,558,995 | 2,558,945 | 2,558,308 | 25,397,030 |
| Series 1996A | 8,220,583 | 8,218,060 | 17,213,900 | 17,196,700 | 138,777,950 |
| Subtotal | \$ 20,437,918 | \$ 20,817,655 | \$ 20,799,720 | \$ 20,781,883 | \$ 188,306,543 |
| Aviation Technology Bonds | | | | | |
| Series 2002A | \$ 955,765 | \$ 955,495 | \$ 952,614 | \$ 952,233 | \$ 10,491,916 |
| Subtotal | \$ 955,765 | \$ 955,495 | \$ 952,614 | \$ 952,233 | \$ 10,491,916 |
| TOTAL TFA | \$ 118,978,360 | \$ 125,559,783 | \$ 126,352,112 | \$ 126,300,032 | \$ 2,316,543,415 |
| Recreation Commission | | | | | |
| Series 1994 | \$ 648,008 | \$ 661,595 | \$ 678,483 | \$ 693,370 | \$ 9,517,641 |
| Series 1997 | 523,869 | 521,616 | 523,555 | 519,805 | 5,698,390 |
| Series 2002 | 608,870 | 887,400 | 1,333,118 | 1,396,105 | 16,205,533 |
| Subtotal | \$ 1,780,746 | \$ 2,070,611 | \$ 2,535,156 | \$ 2,609,280 | \$ 31,421,564 |
| TOTAL RDC | \$ 1,780,746 | \$ 2,070,611 | \$ 2,535,156 | \$ 2,609,280 | \$ 31,421,564 |

| | | | | | |
|---------------------|----------------|----------------|----------------|----------------|------------------|
| Bond Bank | | | | | |
| Series 1998B (ADDL) | \$ 1,042,434 | \$ 1,044,740 | \$ 1,039,845 | \$ 1,042,698 | \$ 3,652,388 |
| Series 2003D (CLC) | 1,306,450 | 1,306,450 | 1,306,450 | 1,306,450 | 41,493,856 |
| Subtotal | \$ 2,348,884 | \$ 2,351,190 | \$ 2,346,295 | \$ 2,349,148 | \$ 45,146,244 |
| TOTAL BOND BANK | \$ 2,348,884 | \$ 2,351,190 | \$ 2,346,295 | \$ 2,349,148 | \$ 45,146,244 |
| TOTAL ALL BONDS | \$ 191,951,413 | \$ 205,197,371 | \$ 217,899,961 | \$ 219,654,222 | \$ 3,307,398,566 |

(1) Debt service on variable rate debt is determined by assuming an interest rate of 6%.

Source: State Budget Agency (as of June 30, 2004)

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. The ratios of outstanding debt subject to possible State appropriation to population and personal income for the past nine years are reflected in Table V-3. The ratios do not reflect any state university or college indebtedness or contingent obligations.

Table V-3
Ratios of Outstanding Debt Subject to Possible Appropriation
to Population and Personal Income

| Fiscal Year | Population | Personal Income ⁽¹⁾ | Outstanding Debt Subject to Appropriation | Debt/Capita ⁽²⁾ | Debt/Income ⁽³⁾ |
|-------------|------------|--------------------------------|---|----------------------------|----------------------------|
| 1994 | 5,745,626 | 120,278 | 1,030,787,646 | 179 | 0.9 |
| 1995 | 5,791,819 | 125,269 | 1,036,962,646 | 179 | 0.8 |
| 1996 | 5,834,908 | 132,103 | 1,119,537,646 | 192 | 0.8 |
| 1997 | 5,872,370 | 138,794 | 1,116,717,640 | 190 | 0.8 |
| 1998 | 5,907,617 | 149,336 | 1,240,092,643 | 210 | 0.8 |
| 1999 | 5,942,901 | 154,842 | 1,228,372,647 | 207 | 0.8 |
| 2000 | 6,080,485 | 165,285 | 1,569,341,152 | 258 | 0.9 |
| 2001 | 6,126,470 | 169,204 | 1,624,466,887 | 265 | 1.0 |
| 2002 | 6,156,913 | 172,592 | 1,713,027,121 | 278 | 1.0 |
| 2003 | 6,195,643 | 178,327 | 1,774,081,395 | 286 | 1.0 |

(1) Personal Income is expressed in millions of dollars.

(2) According to Moody's 2003 State Debt Medians, the median debt per capita for all states was about \$606

(3) According to Moody's 2003 State Debt Medians, the median percentage for all states was about 2.2%

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income, and State Budget Agency for outstanding debt.

Debt Issued in Fiscal Year 2005

In July 2004, the Transportation Finance Authority issued \$293.4 million of Highway Revenue Bonds to refund a portion of outstanding Highway Revenue Bonds.

See Tables V-1 and V-2.

Authorized but Unissued Debt

State Office Building Commission. The General Assembly authorized the Building Commission to issue bonds to finance State facilities, including:

- Four additional regional mental health facilities
- State-wide public safety communications network
- Laboratories for the State Police, Department of Health and Department of Toxicology

The regional mental health facilities in Logansport and Madison are under construction. The Building Commission is working with the Family and Social Services Administration on planning for the other two facilities. Construction costs of the Logansport and Madison facilities are estimated to be \$33.0 million and \$55.0 million, respectively. The new Logansport and Madison facilities are expected to be complete in the first quarter of 2005 and the second quarter of 2005, respectively.

The first phase of the public safety communications network (Project Hoosier SAFE-T) is under construction and is expected to be complete in the first quarter of 2005. The estimated construction cost is \$30.0 million. The Building Commission is working with the Integrated Public Safety Commission on planning and design of the remaining phases.

The Building Commission is designing the laboratories and anticipates construction will begin in May 2004 with completion two years later. The estimated construction cost is \$55.2 million.

The Building Commission is providing short-term, or construction, financing for the mental health facilities and laboratories through the Building Commission's "Hoosier Notes" commercial paper program. The Building Commission is authorized to issue not to exceed \$150.0 million of Hoosier Notes for projects authorized by the General Assembly. It is anticipated that the Building Commission will issue Hoosier Notes for the public safety communications network.

Refundings. The State's Office of Public Finance monitors refinancing opportunities for the Building Commission, the TFA, the Recreation Commission and the Development Finance Authority. As a result, one or more of these issuers may issue refunding bonds from time to time to restructure outstanding indebtedness or achieve debt service savings.

Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

The estimated aggregate principal amount of bonds and notes outstanding as of June 30, 2003 for each State university and college eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations for Fiscal Years 2004 and 2005 are shown below.

Table V-4
Schedule of Fee Replacement Debt

| | Estimated Amount of Debt Outstanding June 30, 2004 | Fiscal Year 2004 Fee Replacement Expenditures | Fiscal Year 2005 Fee Replacement Appropriations |
|-----------------------------------|--|---|---|
| Ball State University | \$ 69,470,000 | \$ 8,093,255 | \$ 8,094,555 |
| Indiana University ⁽¹⁾ | 405,608,424 | 48,791,169 | 53,904,523 |
| Indiana State University | 53,555,000 | 6,549,325 | 6,549,470 |
| Ivy Tech State College | 122,930,000 | 8,600,301 | 10,262,578 |
| Purdue University ⁽²⁾ | 186,515,001 | 28,358,962 | 22,899,464 |
| University of Southern Indiana | 84,412,205 | 5,862,166 | 5,859,415 |
| Vincennes University | <u>19,156,686</u> | <u>1,954,499</u> | <u>2,669,550</u> |
| Total | \$ <u>941,647,316</u> | \$ <u>108,209,677</u> | \$ <u>110,239,555</u> |

⁽¹⁾ Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

⁽²⁾ Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education

Contingent Obligations

Certain State-authorized entities, including the Indiana Transportation Finance Authority, Indiana Bond Bank and the Indiana Development Finance Authority, have issued obligations that, in certain circumstances, may include payment of State funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority—Toll Road Financing. The TFA and its predecessors issued revenue bonds (“Toll Road Bonds”) to finance and refinance the construction and improvement of the 156-mile Indiana East-West Toll Road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. For a list of the indebtedness of the TFA for Toll Road Financing, *see* “Schedule of Long-Term Debt—Contingent Obligations.”

The Indiana Department of Transportation (“INDOT”) entered into a lease agreement for the Toll Road (the “Toll Road Lease”) with the TFA. INDOT is obligated to fix and collect tolls to meet the requirements of the Toll Road Lease; that is, to pay (a) operating expenses, (b) rent to the TFA (for payment of debt service on Toll Road Bonds) and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenue collected by INDOT is payable to the TFA as additional rent.

In the event Toll Road revenue is insufficient in any year to meet the requirements of the Toll Road Lease, INDOT is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, INDOT is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or INDOT.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing” and “Transportation Finance Authority—Aviation Financing.”

Indiana Bond Bank. The Indiana Bond Bank (the “Bond Bank”), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to local governments and other qualified entities as defined in Indiana

Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenue and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds or notes issued by the Bond Bank with a debt service reserve under Indiana Code 5-1.5-5 are considered “moral obligation bonds”; however, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds and issued by the Bond Bank, and a debt service reserve fund replacement appropriation would only be requested in the event that the particular designated sources were insufficient.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is limited by statute to \$1.0 billion plus (a) not to exceed \$200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy, and (b) not to exceed \$30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, these limits do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

For a list of Bond Bank bonds that are eligible for debt service reserve fund replacement appropriations, *see* “Schedule of Long Term Debt—Contingent Obligations.”

Development Finance Authority. The Indiana Development Finance Authority (the “Development Finance Authority”), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as listed in Table V-5, the Development Finance Authority’s revenue bonds are payable solely from revenue of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenue raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority issued taxable economic development revenue bonds for Steel Dynamics, Inc. (the “Steel Dynamics Bonds”), Qualitech Steel Corporation (the “Qualitech Bonds”), and Heartland Steel, Inc. (the “Heartland Bonds”). Each of these bond issues is secured in part by a debt service reserve fund established exclusively for the related bond issue. The Qualitech Bonds and the Heartland Bonds bear interest at a variable rate and are also secured by direct-pay letters of credit issued by a commercial bank. The Development Finance Authority agreed that the Development Finance Authority would seek appropriations from the General Assembly to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds and the Heartland Bonds under certain circumstances.

Qualitech Steel, the obligor on the Qualitech Bonds, and Heartland Steel, the obligor on the Heartland Bonds, are bankrupt, and a bankruptcy court has relieved them of their obligations to make debt service payments on their indebtedness. As a result, the Development Finance Authority is paying the Qualitech Bonds and the Heartland Bonds, using appropriations made by the General Assembly.

The Steel Dynamics Bonds have been redeemed and replaced with a loan from one or more commercial banks. The debt service reserve fund established for the Steel Dynamics Bonds remains in place, together with the Development Finance Authority's agreement to seek State appropriations to fund debt service under certain circumstances.

The Steel Dynamics Bonds financed a portion of the State's incentives for a substantial economic development project in DeKalb County. Steel Dynamics continues to operate that project. The Qualitech Bonds financed a portion of the State's incentives for a substantial economic development project in Hendricks County. Steel Dynamics purchased that project, and Steel Dynamics is now operating the project. (Steel Dynamics is in no way obligated to pay the Qualitech Bonds.) The Heartland Bonds financed a portion of the State's incentives for a substantial economic development project in Vigo County (Terre Haute). A multi-national steel company is now operating that project. (The multi-national steel company is in no way obligated to pay the Heartland Bonds.)

See Table V-5.

Debt Statement—Contingent Obligations

Table V-5 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2003. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund. See “Schedule of Long Term Debt—Contingent Obligations.”

Table V-5
Schedule of Long Term Debt
Contingent Obligations

| Issuer/Series | Original Par Amount | Ending Balance 6/30/03 | (Redeemed)/ Issued | Ending Balance 6/30/04 |
|---|-------------------------|------------------------------|------------------------|------------------------------|
| Transportation Finance Authority | | | | |
| Toll Road Bonds | | | | |
| Series 1985 | \$ 256,970,000 | \$ 26,200,000 | \$ - | \$ 26,200,000 |
| Series 1987 | 184,745,000 | 44,340,000 | - | 44,340,000 |
| Series 1993 | 76,075,000 | 30,140,000 | (9,595,000) | 20,545,000 |
| Series 1996 | 134,795,000 | 129,355,000 | (2,865,000) | 126,490,000 |
| ITFA TOTAL | \$ 652,585,000 | \$ 230,035,000 | \$ (12,460,000) | \$ 217,575,000 |
| Bond Bank | | | | |
| Special Program Pool | | | | |
| Series 1993A | \$ 7,975,000 | \$ 5,880,000 | \$ (5,880,000) | \$ - |
| Series 1993B | 14,915,000 | 11,400,000 | (11,400,000) | - |
| Series 1994B | 8,475,000 | 5,930,000 | (5,930,000) | - |
| Series 1995A | 4,540,000 | 3,510,000 | (195,000) | 3,315,000 |
| Series 1995A | 13,280,000 | 11,010,000 | (395,000) | 10,615,000 |
| Series 1997A | 6,295,000 | 5,570,000 | (185,000) | 5,385,000 |
| Series 1997B | 22,855,000 | 18,760,000 | (18,760,000) | - |
| Series 1997C | 5,010,000 | 5,010,000 | (230,000) | 4,780,000 |
| Series 1998A | 6,485,000 | 5,915,000 | (180,000) | 5,735,000 |
| Series 2000A | 31,495,000 | 30,800,000 | (730,000) | 30,070,000 |
| Series 2000A (Refunding) | 32,860,000 | 11,745,000 | (1,995,000) | 9,750,000 |
| Series 2001A (Refunding) | 20,840,000 | 18,240,000 | (1,220,000) | 17,020,000 |
| Series 2001A | 7,055,000 | 6,550,000 | (525,000) | 6,025,000 |
| Series 2001B | 9,500,000 | 9,040,000 | (470,000) | 8,570,000 |
| Series 2002A | 42,910,000 | 42,660,000 | (945,000) | 41,715,000 |
| Series 2002C | 3,940,000 | 3,845,000 | (415,000) | 3,430,000 |
| Series 2002D | 60,000,000 | 58,910,000 | (1,120,000) | 57,790,000 |
| Series 2002E | 10,155,000 | 10,155,000 | (250,000) | 9,905,000 |
| Series 2003A | 8,885,000 | 8,885,000 | (345,000) | 8,540,000 |
| Series 2003B | 40,385,000 | 40,385,000 | - | 40,385,000 |
| Series 2003C | 10,425,000 | 10,425,000 | (895,000) | 9,530,000 |
| Series 2003E | 36,530,000 | - | 36,530,000 | 36,530,000 |
| Series 2003F-1 | 17,155,000 | - | 17,155,000 | 17,155,000 |
| Series 2003F-2 | 1,175,000 | - | 1,175,000 | 1,175,000 |
| Series 2004A | 17,210,000 | - | 17,210,000 | 17,210,000 |
| Series 2004B | 17,590,000 | - | 17,590,000 | 17,590,000 |
| Series 2004B | 35,010,000 | - | 35,010,000 | 35,010,000 |
| IBB TOTAL | \$ 492,950,000 | \$ 324,625,000 | \$ 72,605,000 | \$ 397,230,000 |
| Development Finance Authority | | | | |
| Qualitech Steel | \$ 33,100,000 | \$ 26,300,000 | \$ (1,300,000) | \$ 25,000,000 |
| Steel Dynamics | 21,400,000 | 15,300,000 | (1,300,000) | 14,000,000 |
| Heartland Steel | 13,800,000 | 11,400,000 | (500,000) | 10,900,000 |
| IDFA TOTAL | \$ 68,300,000 | \$ 53,000,000 | \$ (3,100,000) | \$ 49,900,000 |
| TOTAL ALL BONDS | \$ 1,213,835,000 | \$ 607,660,000 | \$ 57,045,000 | \$ 664,705,000 |

Source: State Budget Agency (as of June 30, 2003)

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenue and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

| <u>Entity</u> | <u>Statute</u> | <u>Purpose of Debt Issuance</u> |
|---|------------------------------------|--|
| Board for Depositories | I.C. 5-13-12 Recodified 1987 | Provide guarantees for industrial development or credit enhancement for Indiana enterprises |
| Indiana Educational Facilities Authority | I.C. 29-1263 Established 1979 | Provide funds for projects to be leased to private institutions of higher learning |
| Indiana Health Facility Financing Authority ⁽¹⁾ | I.C. 5-1-16 Established 1983 | Provide health facilities with means for financing equipment and property acquisitions |
| Indiana Housing Finance Authority ⁽²⁾ | I.C. 5-20-1 Established 1978 | Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing |
| Indiana Political Subdivision Risk Management Commission | I.C. 27-1-29 Established 1986 | Provide funds to aid political subdivisions protection against liabilities |
| Indiana Port Commission | I.C. 8-10-1 Established 1961 | Provide funds to finance and construct, a broad variety of projects, including public ports, throughout Indiana |
| Indiana Secondary Market for Secondary Loans, Inc. ⁽³⁾ | I.C. 20-12-21.2 Authorized 1980 | Provide funds for secondary market for higher education loans |
| Intelnet Commission | I.C. 5-21-1 Established 1986 | Provide funds for a State-wide integrated telecommunications network |
| Indiana State Fair Commission | I.C. 15-1.5-1 Established 1990 | Provide funds for construction, repair and refurbishing of State fairgrounds |
| Indiana White River State Park Development Commission | I.C. 14-3-1 Established 1979 | Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in downtown Indianapolis |

⁽¹⁾ Originally the Indiana Hospital Equipment Financing Authority

⁽²⁾ Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

⁽³⁾ A not-for-profit corporation authorized by the General Assembly.

VI. STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the

assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. PERF is governed by Indiana Code 5-10.2 and 5-10.3 and is administered by a five member Board of Trustees appointed by the Governor. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees, local government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On July 1, 2002, there were 207,935 active and retired members participating in PERF from State and local government with assets totaling \$8,272,987,693.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. The PERF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and now pays the employee contributions for State employees to PERF.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last five valuation dates.

Table VI-1
Public Employees' Retirement Fund
(State-Related Portion Only)

| As of July 1, | 1999 | 2000 | 2001* | 2002 | 2003 |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Funded Status | | | | | |
| Actuarial Value of Assets | \$ 1,828,584,443 | \$ 1,960,018,018 | \$ 2,063,626,964 | \$ 2,061,789,940 | \$ 2,078,952,509 |
| Actuarial Accrued Liability | 1,583,485,563 | 1,701,091,436 | 1,896,505,744 | 2,010,177,846 | 1,860,101,326 |
| Unfunded/(Overfunded) | (245,098,880) | (258,926,582) | (167,121,220) | (51,612,904) | (218,857,183) |
| AAS | | | | | |
| Funded Ratio | 115.5% | 115.2% | 108.8% | 102.6% | 111.8% |
| Contribution History | | | | | |
| Annual Required Contribution | \$ 67,481,016 | \$ 61,761,627 | \$ 66,559,482 | \$ 72,332,921 | \$ 79,641,040 |
| Actual Employer Contribution | 77,821,378 | 84,353,750 | 76,218,663 | 77,420,077 | 80,795,703 |
| Contribution Rate** | 5.0% | 5.0% | 5.2% | 5.6% | 3.8% |

* Revised actuarial assumptions as a result of experience review completed in December 2001 for Plan years 1995-2000.

** Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2003.

Other State Plans

The State appropriates moneys to several other retirement plans that are administered by the PERF Board of Trustees. These include the Judges' Retirement System, the Legislators' Defined Benefit Plan, the Excise Police and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund. Table VI-2 highlights the actuarial valuation findings for these plans as of July 1, 2002.

Table VI-2
Other State Plans Pension Funds
Summary of Results of Actuarial Valuation
(as of July 1, 2003)

| | Judge's Retirement System | Legislators' Defined Benefit Plan | Excise Police & Conservation Officers' Retirement Plan | Prosecuting Attorney's Retirement Fund |
|------------------------------|------------------------------|--------------------------------------|---|--|
| <u>Funded Status</u> | | | | |
| Actuarial Value of Assets | \$ 126,151,673 | \$ 4,199,696 | \$ 37,286,105 | \$ 12,757,858 |
| Actuarial Accrued Liability | 206,846,323 | 4,947,897 | 52,006,444 | 15,685,300 |
| Unfunded/(Overfunded) AAL | 80,694,650 | 748,201 | 14,720,339 | 2,927,442 |
| Funded Ratio | 60.1% | 84.9% | 71.7% | 81.3% |
| <u>Contribution History*</u> | | | | |
| Annual Required Contribution | \$ 9,561,180 | \$ 233,645 | \$ 2,323,722 | \$ 1,129,480 |
| Actual Employer Contribution | 13,275,820 | 186,713 | 1,951,517 | 446,040 |

* Contribution History is for Plan Year 2003

Source: Actuarial Valuation Reports, July 1, 2003

The PERF Board of Trustees also administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenue provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2002, \$168.8 million was expended from the pension relief fund, and on June 30, 2002, the pension relief fund balance was \$426.9 million.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") administers a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the State's public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. Indiana Code 21-6.1 governs TRF, and TRF is administered by a five member Board of Trustees appointed by the Governor ("TRF Board"). On June 30, 2003, TRF had 115,159 total members with assets totaling \$6,155,527,008.

The TRF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, each employer was authorized to elect to "pick up" the employee contribution.

For employees hired prior to July 1, 1995, moneys to pay retirement benefits are provided from State appropriations on a "pay as you go" basis. As a result, there is a substantial unfunded accrued liability in the TRF (the "Closed Plan").

To address TRF's unfunded liability, the State and the TRF Board took the following actions:

1. The State capped its pension benefit obligation by (a) shifting the obligation for all teachers hired after July 1, 1995 to local school districts and (b) implementing a level percent of payroll current funding approach (the “New Plan”). The TRF Board sets the contribution rate for the New Plan based on an actuarial valuation of the Plan.

2. The New Plan is intended to be responsible for the total cost of teachers transferring to other school corporations after 1995. The TRF Board began addressing the unfunded liability developing in the New Plan as a result of the impact of teacher transfers, by increasing the required payroll contribution rate to 9.0%, the rate recommended by TRF’s actuary.

3. In 1996, the State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets.

In addition, the State established the Pension Stabilization Fund to reduce future General Fund appropriations for TRF liabilities beginning in Fiscal Year 2006. Payments from the Pension Stabilization Fund were intended to equal the difference between (1) the then current year liability and (2) 106% of the prior year’s payment from the General Fund for the liability. As of June 30, 2003, the Pension Stabilization Fund balance was \$1.860 billion. The Pension Stabilization Fund was funded from General Fund, Hoosier Lottery and gaming revenue, as well as investment income.

To fund teacher pension obligations for Fiscal Years 2004 and 2005, the General Assembly authorized transfer of a total of \$380.0 million from the Pension Stabilization Fund to the General Fund. In addition, the General Assembly redirected Hoosier Lottery profits that otherwise would have been deposited in the Pension Stabilization Fund.

| As of June 30, | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|------------------|------------------|------------------|------------------|------------------|
| Funded Status of Closed Plan | | | | | |
| Actuarial Value of Assets | \$ 4,730,666,420 | \$ 5,209,889,286 | \$ 5,363,497,813 | \$ 5,555,352,257 | \$ 5,728,553,155 |
| Actuarial Accrued Liability | 12,172,501,450 | 12,409,275,218 | 12,695,787,691 | 13,497,778,031 | 13,354,866,440 |
| Unfunded/(Overfunded) AAL | 7,441,835,030 | 7,199,382,932 | 7,332,289,878 | 7,942,425,774 | 7,626,313,285 |
| Funded Ratio | 38.9% | 42.0% | 42.2% | 41.2% | 42.9% |
| Funded Status of New Plan* | | | | | |
| Actuarial Value of Assets | \$ 240,053,914 | \$ 368,157,499 | \$ 447,261,751 | \$ 621,222,272 | \$ 825,811,772 |
| Actuarial Accrued Liability | 498,422,993 | 705,790,225 | 838,038,282 | 1,166,883,205 | 1,392,472,616 |
| Unfunded AAL | 258,369,079 | 337,632,726 | 380,776,531 | 545,660,933 | 566,660,844 |
| Funded Ratio | 48.2% | 52.2% | 54.0% | 53.2% | 59.3% |
| * Total Unfunded Accrued Liability of the New Plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Closed Plan. | | | | | |

Source: Indiana State Teachers’ Retirement Fund, The Report of the Annual Actuarial Valuation, June 30, 2003.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member’s highest salary in 36 consecutive months or a third year trooper’s pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Fund is funded on an actuarial basis. The Treasurer of State is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in the Indiana Comprehensive Annual Financial Report. See “FISCAL POLICIES—Certain Financial Information Incorporated Herein by Reference; Availability from NRMSIRs, State.”

VII. ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The “Crossroads of America,” Indiana is within a day’s drive of nearly two-thirds of the United States’ population. Indiana benefits from proximity to major markets and population centers—both national and international. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state.

Indiana also benefits from a relatively low cost of living. The cost of living index for Indiana’s major cities has been consistently below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial consumers while residential energy bills were 17.2% lower than the national average.

During the past decade, Indiana’s economy grew in size and diversity. With an estimated 2001 Gross State Product of approximately \$189.9 billion, Indiana’s economy ranks sixteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, medical equipment and surgical supplies, engines and parts, magnetic and optical media, household appliances, motor vehicle bodies and trailers, rubber products and steel. From 1993 to 2003, Indiana witnessed a significant shift in the distribution of employment between sectors. Employment in the Professional and Business Services sector increased by 38%, followed by a 25% gain in Education and Health Services and a 23% increase in Construction. The Manufacturing sector is 19.6% of total employment in Indiana, a decrease from 23.4% in 1993; however, manufacturing remains the largest single sector of employment in Indiana.

Population

Indiana is the 14th most populous state in the United States. Indiana’s population grew by 1.0% from 1980 to 1990 and 9.7% from 1990 to 2000. The capital and largest city is Indianapolis. From 1990 to 2000, population within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest.

Table VII-1
Population, including Selected Indiana MSAs

| | <u>1980</u> | <u>1990</u> | <u>2000</u> | <u>% Change 1980-2000</u> |
|------------------------------|-------------|-------------|-------------|-------------------------------|
| Indiana | 5,490,210 | 5,544,159 | 6,080,485 | 10.8% |
| Indianapolis MSA | 1,166,575 | 1,249,822 | 1,607,486 | 37.8 |
| Fort Wayne MSA | 354,156 | 363,811 | 502,141 | 41.8 |
| Evansville- Henderson MSA | 235,403 | 235,946 | 251,366 | 6.8 |
| Gary Primary MSA | 642,733 | 604,526 | 631,362 | -1.8 |
| South Bend MSA | 241,617 | 247,052 | 265,559 | 9.9 |
| United States | 226,542,199 | 248,709,873 | 281,421,906 | 24.2 |

Source: U.S. Census Bureau

**Table VII-2
Demographic Profile**

| Age (Years) | <u>Indiana</u> | | <u>United States</u> | |
|----------------|----------------|-------------|----------------------|-------------|
| | <u>1990</u> | <u>2000</u> | <u>1990</u> | <u>2000</u> |
| Under 5 | 7.2% | 7.0% | 7.6% | 6.8% |
| 5-17 | 18.7 | 18.9 | 18.2 | 18.9 |
| 18-24 | 11.0 | 10.2 | 10.8 | 9.7 |
| 25-44 | 31.5 | 29.4 | 32.4 | 30.2 |
| 45-64 | 19.1 | 22.0 | 18.6 | 22.0 |
| 65 and older | 12.6 | 12.4 | 12.5 | 12.4 |
| Median Age | 35.4 years | 35.2 years | 32.8 years | 35.3 years |

Source: U.S. Census Bureau

Employment

During this past decade, employment in Indiana shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Although manufacturing is still the largest sector of employment at 19.6% of total employment, it was the slowest growing sector from 1993 to 2003. The fastest growing sectors were Professional and Business Services, which grew by 37.5% from 1993 to 2003, followed by Education and Health Services (24.6% growth) and Construction (22.7% growth). Since 1988, Indiana's annual unemployment rate has remained below that of the United States.

**Table VII-3
Year-Ending Non-Farm Employment
(Seasonally Adjusted)**

| <u>Year</u> | <u>Total Employment</u> | | <u>% Change</u> | | <u>Net New Jobs</u> |
|---|-------------------------|-------------|-----------------|-------------|---------------------|
| | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> |
| 1993 | 2,669,700 | 112,203,000 | 3.5 | 2.5 | 89,300 |
| 1994 | 2,757,200 | 116,056,000 | 3.3 | 3.4 | 87,500 |
| 1995 | 2,807,100 | 118,210,000 | 1.8 | 1.9 | 49,900 |
| 1996 | 2,836,700 | 121,003,000 | 1.1 | 2.4 | 29,600 |
| 1997 | 2,881,100 | 124,361,000 | 1.6 | 2.8 | 44,400 |
| 1998 | 2,952,900 | 127,364,000 | 2.5 | 2.4 | 71,800 |
| 1999 | 3,005,300 | 130,536,000 | 1.8 | 2.5 | 52,400 |
| 2000 | 2,975,000 | 132,441,000 | -1.0 | 1.5 | -30,300 |
| 2001 | 2,899,400 | 130,659,000 | -2.5 | -1.3 | -75,600 |
| 2002 | 2,903,900 | 130,096,000 | -0.2 | -0.4 | - 4,500 |
| 2003 | 2,898,100 | 130,035,000 | -0.2 | -0.5 | - 5,800 |
| Average Annual Growth Rate (1993-2003): | | | 0.8 | 1.5 | |
| Total Growth (1993-2003): | | | 8.6 | 15.9 | 228,400 |

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-4
Year-Ending Non-Farm Employment by Sector
(Seasonally Adjusted in Thousands)

| <u>Sector</u> | <u>1993</u> | <u>% of Total</u> | <u>2003</u> | <u>% of Total</u> | <u>Growth 1993-2003</u> |
|-----------------------------------|----------------|-------------------|---------------|-------------------|-----------------------------|
| Mining | 7.2 | 0.3% | 7.2 | 0.2% | 0.0% |
| Construction | 120.4 | 4.5 | 147.7 | 5.1 | 22.7 |
| Manufacturing | 623.7 | 23.4 | 569.3 | 19.6 | -8.7 |
| Trade, Transportation & Utilities | 543.9 | 20.4 | 568.1 | 19.6 | 4.4 |
| Information | 42.2 | 1.6 | 41.0 | 1.4 | -2.8 |
| Financial Activities | 134.8 | 5.0 | 140.8 | 4.9 | 4.5 |
| Professional & Business Services | 187.0 | 7.0 | 257.2 | 8.9 | 37.5 |
| Education & Health Services | 290.3 | 10.9 | 361.7 | 12.5 | 24.6 |
| Leisure & Hospitality | 224.3 | 8.4 | 274.7 | 9.5 | 22.5 |
| Other Services | 102.8 | 3.9 | 105.4 | 3.6 | 2.5 |
| Government | 393.1 | 14.7 | 425.0 | 14.7 | 8.1 |
| Total | <u>2,669.7</u> | <u>100.0</u> | <u>2898.1</u> | <u>100.0</u> | <u>8.6</u> |

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-5
Unemployment Rate
(Annual Averages of Monthly Data)

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana as % of U.S.</u> |
|-------------|----------------|-------------|-----------------------------|
| 1993 | 5.4 | 6.9 | 78.3 |
| 1994 | 4.9 | 6.1 | 80.3 |
| 1995 | 4.7 | 5.6 | 83.9 |
| 1996 | 4.1 | 5.4 | 75.9 |
| 1997 | 3.5 | 4.9 | 71.4 |
| 1998 | 3.1 | 4.5 | 68.9 |
| 1999 | 3.0 | 4.2 | 71.4 |
| 2000 | 3.2 | 4.0 | 80.0 |
| 2001 | 4.4 | 4.7 | 93.6 |
| 2002 | 5.1 | 5.8 | 87.9 |
| 2003 | 5.1 | 6.0 | 85.0 |

Source: U. S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

Income

In 2003, Indiana's per capita personal income reached \$28,783, increasing 2.7% from 2002. During the past ten years, Indiana's personal income grew at an average annual rate of 3.83%. From 1992 to 2002, Indiana's median household income grew faster than that of the United States, averaging an annual growth rate of 1.66% for Indiana as compared to 1.15% for the United States. In 2002, median income was \$41,034 or 96% of the U.S. average, up from 92% in 1992.

Table VII-6
Growth in Per Capita Personal Income

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> | <u>U.S.</u> |
|---|----------------|-------------|----------------|-------------|
| 1993 | 19,764 | 21,346 | 3.6% | 2.4% |
| 1994 | 20,761 | 22,172 | 5.0 | 3.9 |
| 1995 | 21,408 | 23,076 | 3.1 | 4.1 |
| 1996 | 22,368 | 24,175 | 4.5 | 4.8 |
| 1997 | 23,306 | 25,334 | 4.2 | 4.8 |
| 1998 | 24,894 | 26,883 | 6.8 | 6.1 |
| 1999 | 25,615 | 27,939 | 2.9 | 3.9 |
| 2000 | 27,134 | 29,847 | 5.9 | 6.8 |
| 2001 | 27,619 | 30,527 | 1.8 | 2.3 |
| 2002 | 28,032 | 30,906 | 1.5 | 1.2 |
| 2003 | 28,783 | 31,632 | 2.7 | 2.3 |
| Average Annual Growth Rate (1993-2003): | | | 3.83% | 4.01% |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table VII-7
Growth in Median Household Income
(Two-Year Average)

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> | <u>U.S.</u> |
|---|----------------|-------------|----------------|-------------|
| 1992 | 34,805 | 38,032 | -0.1 % | -1.9 % |
| 1993 | 35,417 | 37,784 | 1.8 | -0.7 |
| 1994 | 34,236 | 37,904 | -3.3 | 0.3 |
| 1995 | 35,711 | 38,712 | 4.3 | 2.1 |
| 1995 | 38,995 | 37,857 | 9.2 | 2.3 |
| 1997 | 41,126 | 40,284 | 5.5 | 1.8 |
| 1998 | 42,931 | 41,436 | 4.4 | 2.9 |
| 1999 | 43,283 | 42,764 | 0.8 | 3.2 |
| 2000 | 41,937 | 43,211 | -3.1 | 1.0 |
| 2001 | 41,847 | 43,374 | -0.2 | 0.4 |
| 2002 | 41,034 | 42,654 | -1.9 | -1.7 |
| Average Annual Growth Rate (1992-2002): | | | 1.66% | 1.15% |

Source: U.S. Census Bureau: *Current Population Survey*

Table VII-8
Poverty Rates

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> |
|-------------|----------------|-------------|
| 1992 | 11.8% | 14.8% |
| 1993 | 12.2 | 15.1 |
| 1994 | 13.7 | 14.5 |
| 1995 | 9.6 | 13.8 |
| 1996 | 7.5 | 13.7 |
| 1997 | 8.8 | 13.3 |
| 1998 | 9.4 | 12.7 |
| 1999 | 6.7 | 11.9 |
| 2000 | 8.5 | 11.3 |
| 2001 | 8.5 | 11.7 |
| 2002 | 9.1 | 12.2 |

Source: U.S. Census Bureau: *Current Population Survey*

Gross State Product

With an estimated 2001 Gross State Product of approximately \$189.9 billion, Indiana's economy ranks fifteenth largest in the country in terms of the value of goods and services produced. Since 1991, Indiana's Gross State Product has grown at average annual rate of 5.2%.

Table VII-9
Gross State Product (GSP) and Gross Domestic Produce (GDP)
(Millions of Dollars, Current Dollars)

| | <u>1981</u> | <u>1991</u> | <u>2001</u> | Average Annual Growth Rate <u>1991-2001</u> | <u>% of Total</u> |
|-------------------------------|-------------|-------------|-------------|--|-------------------|
| Indiana | 63,848 | 114,188 | 189,919 | 5.2% | 100.0% |
| Agriculture | 2,098 | 1,670 | 2,458 | 3.9 | 1.3 |
| Mining | 531 | 577 | 668 | 1.5 | 0.4 |
| Construction | 2,590 | 5,273 | 9,971 | 6.6 | 5.3 |
| Manufacturing | 21,617 | 33,230 | 51,647 | 4.5 | 27.2 |
| Transportation & Utilities | 5,792 | 10,376 | 14,376 | 3.3 | 7.6 |
| Wholesale Trade | 3,843 | 6,905 | 11,636 | 5.4 | 6.1 |
| Retail Trade | 6,050 | 10,527 | 17,544 | 5.2 | 9.2 |
| F.I.R.E. | 7,903 | 14,966 | 27,224 | 6.2 | 14.3 |
| Services | 7,005 | 17,613 | 34,306 | 6.9 | 18.1 |
| Government | 6,421 | 13,050 | 20,089 | 4.4 | 10.6 |
| United States | 3,069,751 | 5,895,430 | 10,137,190 | 5.6 | 100.0 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exports

In 2002, Indiana businesses exported \$14,923.0 million worth of goods to other countries, an increase of 3.9% from 2001. Since 1996, Indiana's exports have grown at an average annual rate of 5.2% as compared to 1.8% for the United States as a whole.

Table VII-10
Exports
(Millions of Dollars)

| Year | <u>Exports in Millions of Dollars</u> | | <u>Annual Percentage Change</u> | | |
|---|---------------------------------------|-----------|---------------------------------|-------|-----------------------------------|
| | Indiana | U.S. | Indiana | U.S. | Indiana as a % of U.S. Exports |
| 1996 | 10,983.6 | 622,827.1 | - % | - % | 1.8 % |
| 1997 | 12,028.5 | 687,598.0 | 9.5 | 10.4 | 1.7 |
| 1998 | 12,318.1 | 680,474.2 | 2.4 | (1.0) | 1.8 |
| 1999 | 12,910.3 | 692,820.6 | 4.8 | 1.8 | 1.9 |
| 2000 | 15,385.8 | 780,418.6 | 19.2 | 12.6 | 2.2 |
| 2001 | 14,365.4 | 731,025.1 | (6.6) | (6.3) | 2.1 |
| 2002 | 14,923.0 | 693,257.3 | 3.9 | (5.2) | 2.2 |
| 2003 | 16,407.3 | 723,743.2 | 9.9 | 4.4 | 2.3 |
| Average Annual Growth Rate (1996-2003): | | | 5.9 | 2.2 | |
| Total Growth (1996-2003): | | | 49.3 | 16.2 | |

Source: U.S. Census Bureau, Foreign Trade Division

Table VII-11
Indiana's Leading Export Industries and Destinations
(Millions of Dollars)

| <u>Export Industries</u> | | <u>Export Destinations</u> | |
|-----------------------------|---------------------|----------------------------|---------------------|
| <u>Industry</u> | <u>2003 Exports</u> | <u>Country</u> | <u>2003 Exports</u> |
| Vehicles, excluding Railway | \$4,446.3 | Canada | \$7,458.5 |
| Machinery | 3,531.8 | Mexico | 2,105.2 |
| Electrical Machinery | 1,312.8 | United Kingdom | 1,208.7 |
| Organic Chemical | 1,194.3 | France | 921.7 |
| Optic/Medical Instruments | 997.8 | Japan | 630.2 |
| Pharmaceutical | 735.9 | Germany | 552.5 |
| Miscellaneous Chemical | 643.4 | Netherlands | 288.8 |
| Plastic | 622.0 | Brazil | 276.9 |
| Iron and Steel | 298.1 | Australia | 238.9 |
| Aluminum | 212.8 | China | 235.6 |
| Other | 2,407.1 | Other | 2,485.3 |

Source: U.S. Census Bureau, Foreign Trade Division

VIII. LITIGATION

(May 27, 2004)

The following litigation liability survey is a summary of significant litigation and claims currently pending against the State of Indiana (the "State") involving amounts exceeding \$5.0 million individually or in the aggregate. With respect to tort claims only, the State's liability is limited to (i) \$300,000 for injury or death of one person in any one occurrence, and (ii) \$5.0 million for injury or death of all persons in any one occurrence.

Contract Related

In July 2002, in *Raybestos vs. Indiana Department of Environmental Management*, plaintiffs filed a breach of contract action against the State alleging that the Indiana Department of Environmental Management failed to abide by the terms of an agreed order relating to cleanup costs. Plaintiff is seeking \$18.0 million in damages. The case is scheduled for trial on August 25, 2004.

In August 2002, in *Arthur Andersen vs. Department of Local Government Finance*, plaintiff, which was hired to conduct reassessment of real property in Lake County, filed a breach of contract action against the State. The firm seeks \$12.0 million. Plaintiff asserts that the DLGF approved the firm's invoices, but then failed to abide by contractual provisions requiring the DLGF to take steps to force Lake County to pay the invoices. Plaintiff's motion for summary judgment was denied on April 29, 2004. No trial date has been set.

Employment Related

In July 1993, in *Paula Brattain et al vs. Richmond State Hospital et al.*, plaintiffs filed a lawsuit in a state trial court alleging that the State failed to pay certain similarly classed State employees at an equal rate of pay. The court certified plaintiffs' class. Plaintiffs seek damages in an unspecified amount. If plaintiffs are ultimately successful, the loss will be in excess of \$5.0 million. An agreed protective order has been issued in the case. No other proceedings are scheduled at this time.

In *Blythe A. Whinery et al. vs. Sue Roberson*, the current Director of State Personnel, a group of state employees filed a class action for damages and injunctive relief in claiming violation of Plaintiffs' due process and statutory and contractual rights. Plaintiffs seek damages, back wages and attorney fees and costs in excess of \$5.0 million. The court found in favor of the State, but Plaintiffs appealed. Appellate briefs have been filed.

Medicaid Related

In *Gorka vs. Sullivan*, a case filed in 1993, certain transportation providers sued the State, challenging the Medicaid reimbursement rules for transportation services. The State prevailed in both the state and federal trial courts, and plaintiffs appealed. The State won the appeals, but the federal appeal resulted in a remand to the state court. If the rules are ultimately enjoined, the State will forfeit savings in excess of \$5.0 million. The case was tried by the court on April 8 and April 19, 2004. Post trial briefs have been ordered. In June 2004, the court entered judgment for plaintiffs and ordered that the State recalculate Medicaid transportation provider reimbursement rates, consider costs of provider operations when establishing new rates, and report to the court the new rates, methodology used and the basic data underlying the rates. The State must also recalculate rates prior to May 1993 and after May 1993 and report the findings to the Court. The State is seeking to appeal the decision.

In *Pediatric Dentistry North vs. Indiana Family and Social Services Administration*, a case filed in 1998, the Medicaid reimbursement system for pediatric dental services under both federal and state laws was challenged. A state trial court granted summary judgment to the State on the federal law claims. Plaintiffs claim damages against the State in the amount of approximately \$17.0 million. Mediation was not successful. The state law claims are scheduled for trial beginning August 16, 2004.

Property Related

In 2000, in *NJK Farms and George W. Pendygraft vs. Indiana Department of Environmental Management*, property owners filed an action against the State claiming that denial of a permit for certain land use was unconstitutional. Plaintiffs are seeking in excess of \$30.0 million in damages plus costs and attorney fees. A hearing on a petition for judicial review is scheduled for September 21, 2004.

In May 2000, several cases were filed against the State by property owners along the Fawn River, alleging violations of the Clean Water Act, unconstitutional takings and federal civil rights violations. Plaintiffs are seeking in excess of \$38.0 million in damages, costs and attorneys' fees. In *Greenfield Mills vs. Indiana Department of Natural Resources*, the federal trial court granted summary judgment in favor of the State, but property owners appealed. A federal appeals court remanded the case to the trial court. State court cases are stayed pending outcome of federal court case.

In April 2004, in *Corbin Smyth vs. Steve Carter* [the current State Attorney General] and *Tim Berry* [the current Treasurer of State], an owner of unclaimed property filed a class action in state court alleging that Indiana's unclaimed property statute is unconstitutional and that interest should be paid to owners of unclaimed property. Fiscal impact is potentially more than \$5.0 million. State's motion to dismiss is due June 23, 2004.

Tax Related

In July 2000, in *Trump vs. Department of Revenue*, a gaming corporation operating a riverboat casino challenged the Indiana Department of Revenue's interpretation of the Riverboat Gaming Tax. The potential State financial impact of this case is between \$5.0 million and \$10.0 million, with additional impact because of the precedent it would have on other riverboat casino cases. The case is on appeal to the Indiana Supreme Court, and the parties await the decision of the court.

In January 2003, a business with facilities in East Chicago filed an amended complaint in a state trial court that claims that the City of East Chicago improperly reduced the assessed value it reported from \$1,210,360,954 to \$750,000,000 during the process of determining budgets, tax rates and tax levies for 2002. Plaintiff also claims that various local and State officials, including the State Department of Local Government Finance, did not follow proper procedures, which resulted in a tax rate that was higher than it should have been and an increased tax burden on plaintiff. In addition, plaintiff claims that a particular state statute at issue permits an unconstitutional non-uniform and unequal rate of assessment in violation of the Indiana Constitution. Claims are asserted against Lake County and the State in unspecified amounts, but could be several million dollars. The State filed a motion to dismiss plaintiff's complaint on March 20, 2003. The same allegations by the same business were filed as a new case in state tax court on April 4, 2003. Oral arguments were held on March 5, 2004. No ruling has been issued.

In October 2003, a group of financial services companies filed a case claiming exemption from the State's financial institution tax. State fiscal impact is approximately \$5.0 million to \$6.0 million. An additional case making similar claims was subsequently filed by another group of companies. Fiscal impact in that case is also approximately \$5.0 million to \$6.0 million. The case is scheduled for trial in November 2004.

On April 29, 2004, a group of residential taxpayers in Lake County filed a complaint for declaratory judgment that reassessment statutes that provide for a fair market value assessment by an independent company for residences in Lake County and by the State Department of Local Government Finance for industrial facilities in Lake County (the "Reassessment Statutes") were unconstitutional "special" legislation in violation of the Indiana Constitution. Plaintiffs also requested a preliminary injunction to stop the Lake County Treasurer from mailing tax bills calculated under the Reassessment Statutes. On May 7, 2004, a state trial court granted the injunction and declared the Reassessment Statutes unconstitutional. The State Attorney General, who is among the defendants named in the complaint, filed a petition for writ of mandamus and prohibition in the Indiana Supreme Court challenging the trial court's jurisdiction to hear a tax dispute, arguing that such cases are within the exclusive jurisdiction of the state tax court. In case the Supreme Court denies the Attorney General's jurisdictional argument, the Attorney General also filed a notice of appeal in the trial court. On May 27, 2004, the Indiana Supreme Court stayed the trial court's actions, thereby permitting the county treasurer to mail property tax bills calculated under the Reassessment Statutes, ordered lawyers for the parties to file briefs on an expedited basis, and scheduled oral arguments for June 23, 2004. The Supreme Court did not decide the merits of the residential taxpayers' case. Regardless of which methodology is used to assess property for tax purposes, the property tax needed to cover the Lake County tax levies must be paid by Lake County taxpayers.

APPENDIX B

QUALIFIED OBLIGATIONS AND THE QUALIFIED ENTITY

Introduction

The Northern Indiana Commuter Transportation District (the "Qualified Entity" or the "District") is issuing its Limited Obligation Revenue Bonds, Series 2004 (the "Qualified Obligations") pursuant to the Qualified Entity Resolution. The Qualified Obligations are payable from taxes levied upon the indefinite situs distributable property of railroad car companies deposited in the Commuter Rail Service Fund established by Indiana Code 8-3-1.5-20.5 (the "Situs Revenues") and taxes levied upon the distributable property of railroad companies deposited in the Electric Rail Service Fund established by Indiana Code 8-3-1.5-20.6 (the "Electric Rail Service Fund Revenues"), which, together with the Situs Revenues, are collectively referred to herein as the "Qualified Entity Revenues". Following is information regarding the Qualified Entity, and the sources for payment of the debt service on the Qualified Obligations.

The Qualified Entity

The District was established in 1977 pursuant to Indiana Code 8-5-15, as amended from time to time (the "Qualified Entity Act") and is a distinct municipal corporation. The District was established in response to the threatened abandonment of South Shore passenger service, specifically to maintain and preserve commuter rail service between South Bend and Chicago. The Qualified Entity Act permitted counties to join or create a commuter transportation district only until January 1, 1987. The Qualified Entity is the only commuter transportation district created under the Qualified Entity Act.

It is currently governed by an eleven (11) member Board of Trustees (the "Qualified Entity Board"). The Qualified Entity Board is currently represented by two (2) members each from St. Joseph County, LaPorte County, Porter County and Lake County. The Governor of the State of Indiana (the "State") appoints three (3) members, one as a general appointment, one a passenger of the system and the final an employee of the District. The Qualified Entity Board elects a chairman, vice-chairman, secretary and treasurer to serve for a one (1) year term. The Qualified Entity Board is authorized to issue bonds of the District which are payable from Qualified Entity Revenues. The District does **not** have the power to levy taxes.

Sources of Payment and Security for the Qualified Obligations

The Qualified Obligations will be obligations of the District and will be payable solely from the Qualified Entity Revenues collected by the State pursuant to Indiana Code 6-1.1-8-35 and distributed to the District. The State distributes the Situs Revenues deposited in the Commuter Rail Service Fund to qualifying commuter transportation districts, of which the District is the only one. The State distributes the Electric Rail Service Fund Revenues deposited in the Electric Rail Service Fund to those commuter transportation districts that have substantially all of their commuter rail transportation performed by electrically powered

railroads. The Qualified Entity is the only commuter transportation district that receives funding from the Electric Rail Service Fund.

Risk Factors

Situs Revenues from the Commuter Rail Service Fund are distributed by the Auditor of the State. In addition, prior to the distribution, the Governor must approve the distribution. There can be no assurances that the Governor will approve the distribution. The District is the only recipient of Situs Revenues.

Electric Rail Service Fund Revenues are distributed equally to all qualifying commuter transportation districts. The District is the only recipient of Electric Rail Service Fund Revenues.

As long as the Qualified Obligations are outstanding, the General Assembly of the State has covenanted with the holders of the Qualified Obligations that the taxes providing the Qualified Entity Revenues shall not be repealed, amended, or altered in any manner that would adversely affect the levy and collection of those taxes.

The calculation of the tax liability for both railroad car companies and railroad companies is based on factors that can vary from year to year. Taxes levied on the indefinite-situs distributable property of railroad car companies are based on the average number of cars owned or used by the company within the State during the calendar year preceding the year of assessment. This determination is based generally on the ratios of Indiana miles traveled to total miles traveled by all of its cars and the company's Indiana earnings to total earnings of all of its cars. Taxes levied on the distributable property of any railroad company are based generally on the value of its rail lines and equipment located within any county in which the company provides railroad services. In either case, fluctuations in these variables would affect the amount of taxes levied, collected and distributed. In addition, the amount of Qualified Entity Revenues collected and distributed can be affected by the tax rate and maintenance credits taken by railroad car companies.

The indefinite situs tax rate is based upon the average property tax rate in the State, as determined by the Department of Local Government Finance. The tax rate on the distributable property of a railroad company described above is based upon the average property tax rate that is imposed by taxing districts located in any county in which such railroad company provides railroad services.

In connection with the application of these taxes, Indiana Code 6-1.1-8-2 defines a:

- (a) Railroad car company as a company (other than a railroad company) which owns or operates cars for the transportation of property on railroads; and
- (b) Railroad company as a company which owns or operates:
 - (i) A steam or electric railroad;
 - (ii) A suburban or interurban railroad;

- (iii) A switching or terminal railroad;
- (iv) A railroad station, track, or bridge; or
- (v) A facility which is part of a railroad system.

Indiana Code 6-1.1-8.2 allows for a tax credit for railroad car maintenance and improvements undertaken in the State. This credit is taken against the tax liability calculated under Indiana Code 6-1.1-8-35 and is available to railroad car companies as defined under Indiana Code 6-1.1-8-2. The credit is the lesser of the taxpayer's total tax liability or 25% of the taxpayer's qualified expenditures. The taxpayer must apply for the credit with the DLGF. The total credits that may be provided by the DLGF in a calendar year may not exceed \$2,800,000 for all taxpayers located within the State. To the extent that applications for credits exceed this amount, the credit for each taxpayer will be reduced on a pro rata basis as outlined under Indiana Code 6-1.1-8.2.

Business Data

The District operates the South Shore Railroad that runs from South Bend, Indiana to Chicago, Illinois. The system runs through the Indiana Counties of St. Joseph, LaPorte, Porter and Lake.

The following table represents information concerning the operation of the District over the last 4 years.

| <u>DESCRIPTION</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|--------------------------|--------------|-------------|-------------|-------------|
| Passenger Fares | \$13,648 | \$13,962 | \$13,520 | \$13,945 |
| Indefinite Situs Tax (1) | \$ 5,859 (2) | \$ 4,963(2) | \$ 5,799(3) | \$ 3,433(4) |
| Passengers* | 3,611 | 3,771 | 3,588 | 3,573 |

In thousands

* estimated amount

- (1) Net of Maintenance Credits.
- (2) In 2001 and 2000, the District did not receive Situs Revenues. The Situs Revenues for 2001 and 2000 were transferred to the State's General Fund. Prior to 2000, the District received Situs Revenues for operating and maintaining the District's commuter rail system.
- (3) Beginning in 2002, the Situs Revenues can be used only for the repayment of principal of and interest on bonds or notes of qualifying commuter transportation districts.
- (4) In 2003, the Situs Revenues decreased due to a reduction in the statewide property tax rate as a result of the 2002 reassessment. The estimated receipts of the Situs Revenues net of maintenance credits for 2004 is \$3,250,000 million.

Ten largest taxpayers in the State for the payment of Situs Revenues are set forth below

| <u>NAME</u> | <u>TYPE OF BUSINESS</u> | <u>MOST RECENT ASSESSED VALUATION</u> | <u>SITUS REVENUES* FOR FY 2003</u> |
|--------------------|-----------------------------|---|--|
| TTX | Rail Car Leasing | \$43,613,400 | \$152,101 |
| GATX | Rail Car Leasing | 17,663,110 | 14,020 |
| ADM | Grain Company | 14,405,770 | 326,640 |
| Cargill Inc. | Grain Company | 11,312,220 | 228,047 |
| Union Tank Car Co. | Rail Car Leasing | 10,515,720 | -0- |
| Dow Chemical | Chemical | 8,727,890 | 190,443 |
| Exxon Mobile Corp. | Petroleum | 7,471,680 | 167,859 |
| GE Rail Service | Rail Car Leasing | 6,682,500 | 53,665 |
| Citi Group Capital | Financial | 6,434,870 | 42,183 |
| Equistar Chemicals | Chemical | 5,116,910 | 114,258 |

* Net of Maintenance Credit

The Chicago South Shore & South Bend RR is currently the only railroad company that pays taxes, which are deposited in the Electric Rail Service Fund. The following information concerns the assessed value and taxes paid for 2002 and 2003.

| <u>Year Taxes Paid</u> | <u>Assessed Value</u> | <u>Taxes Paid</u> |
|------------------------|-----------------------|-------------------|
| 2002 | \$3,086,060 | \$135,989 |
| 2003 | \$4,733,810 | \$142,831 |

Additional information concerning the District may be found in the annual audited financial statements prepared for the District which are available upon request.

APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon delivery of the Series 2004 D Bonds, Baker & Daniels,
Indianapolis, Indiana, Bond Counsel, proposes to deliver an
opinion in substantially the following form:

November 16, 2004

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank Special Program Bonds, Series 2004 D
(Northern Indiana Commuter Transportation District Project)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of Twenty-Nine Million Two Hundred Seventy-Five Thousand Dollars (\$29,275,000) aggregate principal amount of the Indiana Bond Bank Special Program Bonds, Series 2004 D (Northern Indiana Commuter Transportation District Project), originally dated November 16, 2004 (the "Series 2004 D Bonds"). The Series 2004 D Bonds are being issued pursuant to Indiana Code 5-1.5, as amended (the "Act") and a certain Trust Indenture dated as of November 1, 2004, between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "Indenture").

We have examined the law and such certified proceedings and other certificates, instruments and documents as we have deemed necessary or appropriate for purposes of rendering this opinion.

As to questions of fact material to our opinion, we have relied, without undertaking to verify the same by independent investigation, upon representations, covenants and certifications of the Issuer, public officials and others contained in the certified proceedings and other certificates, instruments and documents furnished to us.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Indenture constitutes a valid and binding obligation of the Issuer enforceable upon the Issuer. The Indenture creates the valid pledge that it purports to create of the Funds and Accounts (as defined in the Indenture) thereunder and the obligations of the Qualified Entity (as defined in the Indenture) being acquired with the proceeds of the Series 2004 D Bonds, subject to the application thereof to the purposes of and the conditions permitted by the Indenture.

2. The Series 2004 D Bonds have been duly authorized, executed and issued by the Issuer in accordance with the Act, and are valid and binding special obligations of the Issuer, payable solely from and secured solely by the sources provided therefor in and pursuant to the Indenture.

3. The interest on the Series 2004 D Bonds is excludable pursuant to Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of delivery of the Series 2004 D Bonds (the "Code"), from gross income for federal income tax purposes, and the Series 2004 D Bonds are not "private activity bonds" under Section 141 of the Code; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), interest on the Series 2004 D Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The initial public offering price of the Bonds maturing on February 1, 2011 (the "Discount Bonds"), is less than the amount payable thereon at maturity. The difference between the initial public offering price of the Discount Bonds and the amount payable at maturity is original issue discount that constitutes interest that is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Code.

The opinions set forth in the preceding paragraph are subject to the condition that the Issuer and the Qualified Entity comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2004 D Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer and the Qualified Entity have covenanted to comply with each of such requirements. Failure to comply with certain of such requirements may cause the interest on the Series 2004 D Bonds to cease to be excludable from gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004 D Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Series 2004 D Bonds.

4 The interest on the Series 2004 D Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax.

It is to be understood that the rights of the holders of the Series 2004 D Bonds and the enforceability of the Series 2004 D Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

APPENDIX D

SPECIMEN BOND INSURANCE POLICY
AND
SPECIMEN SURETY BOND



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

| | |
|----------------|--------------------------------|
| Issuer: | Policy Number: |
| | Control Number: 0010001 |
| Bonds: | Premium: |

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



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T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

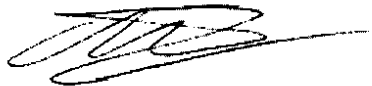


President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.



Authorized Officer



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125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond Debt Service Reserve Fund Policy

| | |
|----------------------|--------------------------------|
| Issuer: | Policy Number: |
| | Control Number: 0010001 |
| Bonds: | Premium: |
| | Maximum Amount: |
| Paying Agent: | |

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay the paying agent named above or its successor, as paying agent for the Bonds (the "Paying Agent"), for the benefit of Bondholders, that portion (not to exceed the Maximum Amount set forth above) of the amount required to pay principal and interest (but not any prepayment premium) on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payment to the Paying Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. Upon such disbursement, Financial Guaranty shall become entitled to reimbursement therefor (together with interest thereon) all as provided in the Debt Service Reserve Fund Policy Agreement between the Issuer and Financial Guaranty dated as of the Effective Date of this Policy. The Maximum Amount shall be automatically reinstated when and to the extent that the Issuer repays amounts disbursed hereunder, but shall not be reinstated to the extent of amounts received by Financial Guaranty constituting interest on amounts disbursed to the Paying Agent pursuant to this Policy. Financial Guaranty shall provide Notice to the Paying Agent of any reinstatement of any portion of the Maximum Amount within one Business Day of such reinstatement.

This Policy is non-cancellable for any reason, including the failure of the Issuer to reimburse Financial Guaranty for any payment made hereunder.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond Debt Service Reserve Fund Policy

principal and interest Due for Payment on such Bond and includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from the Paying Agent for the Bonds to Financial Guaranty or from Financial Guaranty to the Paying Agent, as the case may be. "Business Day" means any day other than a Saturday, Sunday or a day on which the Paying Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

APPENDIX E

SUMMARY OF CERTAIN LEGAL DOCUMENTS

- E-1 Definitions
- E-2 Summary of Certain Provisions of the Indenture
- E-3 Summary and Excerpts of the Qualified Entity Resolution

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APPENDIX E-1

DEFINITIONS

The following are definitions of certain of the terms used in this Official Statement and defined in the Indenture:

"Accounts" means the accounts created under the Indenture.

"Act" means the provisions of Indiana Code 5-1.5, as amended from time to time.

"Additional Bonds" means Bonds issued pursuant to the Indenture and any Supplemental Indenture.

"Additional Qualified Obligations" means any "securities" (as defined in the Act) which are issued by the Qualified Entity and purchased by the Bond Bank with a portion of the proceeds of a Series of Additional Bonds, and which are payable on a parity with the Northern Indiana Commuter Transportation District Limited Obligation Revenue Bonds, Series 2004.

"Authorized Officer", with respect to the Bond Bank, means the Chairman, Vice Chairman or Executive Director of the Bond Bank or such other person or persons who are duly authorized to act on behalf of the Bond Bank; with respect to the Qualified Entity, means the General Manager, Chief Financial Officer or Controller of the Qualified Entity or any other person designated in writing by the Board of Trustees of the Qualified Entity.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended from time to time.

"Beneficial Owner" means any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise (including any person holding Bonds through nominees, depositories or other intermediaries) has or shares: (i) voting power, which includes the power to vote, or to direct the voting of, the Bonds; or (ii) investment power, which includes the power to dispose, or to direct the disposition of, the Bonds.

"Bond Bank" means the Indiana Bond Bank, a body corporate and politic, not a state agency, but an independent public instrumentality of the State exercising essential public functions, or any successor to its functions.

"Bondholder" or "holder of Bonds" or "owner of Bonds" or any similar term means the registered owner of any Bond.

"Bond Insurance Policy" means the municipal bond new issuance insurance policy issued by the Bond Insurer that guarantees the payment of the principal of and interest on the Bonds.

"Bond Insurer" means Financial Guaranty Insurance Company, a New York stock insurance company or any successor thereto.

"Bond Issuance Expense Account" means the account by that name created under the Indenture.

"Bonds" means the Bond Bank's Special Program Bonds, Series 2004 D (Northern Indiana Commuter Transportation District Project) and any Additional Bonds or Refunding Bonds.

"Cash Flow Certificate" means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues and payments.

"Clearing Agency" means initially The Depository Trust Company, and its successors and assigns, including any surviving, resulting or transferee corporation, or any successor corporation that may be appointed in a manner consistent with the Indenture and will include any direct or indirect participants of The Depository Trust Company.

"Code" means the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds, and the applicable regulations or rulings promulgated or proposed thereunder, and any successor thereto.

"Costs of Issuance" means items of expense payable or reimbursable directly or indirectly by the Bond Bank and related to the authorization, sale and issuance of Bonds, which items of expense will include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, underwriter's discounts, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds, costs and expenses of refunding, bond or reserve fund insurance premiums, credit enhancements (including Credit Facilities) or liquidity facility fees, and other costs, charges and fees in connection with the foregoing and any other costs of a similar nature authorized by the Act.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state and approved by the Bond Bank.

"Credit Facility" means any letter of credit, revolving credit agreement, liquidity facility, standby bond purchase agreement, surety bond (including a Qualified Surety Bond), insurance policy or other agreement or similar instrument issued by a Credit Provider, which provides for payment of principal or purchase price of, or interest on any Series of Bonds or a portion thereof, or is issued for deposit in the Debt Service Reserve Fund to satisfy all or a portion of the Reserve Requirement.

"Credit Provider" means the issuer of any Credit Facility and its successor in such capacity and its assigns. To qualify under the Indenture, the Credit Provider providing such Credit Facility will be either:

- (i) an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds (without regard to any such Credit Facility); or

(ii) a bank or trust company which at the time of issuance of such Credit Facility has an outstanding, unsecured, uninsured and unguaranteed debt issue rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds (without regard to any such Credit Facility).

(iii) any entity having the qualifications set forth in the Supplemental Indenture authorizing the issuance of a Series of Bonds.

"Debt Service Reserve Fund" means the account by that name created under the Indenture.

"Debt Service Reserve Fund Reimbursement Obligation" shall mean any obligation to reimburse the Credit Provider of any Qualified Surety Bond for any payment made under such Qualified Surety Bond or any other obligation to repay any amounts (including, but not limited to, fees or additional interest) to the Credit Provider, including specifically all amounts owing pursuant to that certain Debt Service Reserve Fund Policy dated as of November 16, 2004, by and between the Bond Bank and the Bond Insurer.

"Default" means an event or condition, the occurrence of which, with the lapse of time or the giving of notice or both, would become an Event of Default under the Indenture.

"Event of Default" means any occurrence of an event specified in the Indenture.

"Fees and Charges" means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the Qualified Entity.

"Fiscal Year" means the twelve month period from July 1 through the following June 30.

"Funds" means the funds created under the Indenture.

"General Account" means the account by that name created under the Indenture.

"General Fund" means the fund by that name created under the Indenture.

"Governmental Obligations" means (a) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America or (b) senior debt obligations of other government sponsored agencies approved by the Bond Insurer.

"Indenture" means the Trust Indenture, dated as of November 1, 2004 between the Bond Bank and the Trustee, and all supplements and amendments entered into thereunder.

"Interest Payment Date" means any date on which interest is payable on the Bonds.

"Investment Earnings" means earnings and profits (after consideration of any accrued interest paid and/or amortization of premiums or discount on the investment) on the moneys in the Funds and Accounts established under the Indenture, except the Rebate Fund.

"Investment Securities" means any of the following: (a) Governmental Obligations; (b) obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank; Farm Credit System Financial Assurance Corporation; Rural Economic Community Development Administration (formerly the Farmers Home Administration); General Services Administration; United States Maritime Administration; Small Business Administration; Government National Mortgage Association ("GNMA"); United States Department of Housing and Urban Development ("PHAs"); Federal Housing Administration; and Federal Financing Bank; (c) direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "AAA" by S&P issued by the Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC"); obligations of the Resolution Funding Corporation ("REFCORP"); senior debt obligations of the Federal Home Loan Bank System; and senior debt obligations of other government sponsored agencies approved by the Bond Insurer; (d) United States dollar denominated accounts, federal funds and bankers' acceptances with domestic commercial banks, which have a rating on their short term certificates of deposit on the date of purchase of "AA-" or "A-1+" by S&P and maturing no more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (e) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase; (f) investments in a money market fund rated "AAAm-G," "AAA-m," "AA-m" or better by S&P which fund may be a fund of the Trustee; (g) "Pre-refunded Municipal Obligations" defined as follows: any obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or any successors thereto; or (B)(i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Governmental Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the obligations described in this clause (B) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; (h) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "AA-" or higher by S&P; (i) investment agreements supported by appropriate opinions of counsel; and (j) other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

"Opinion of Bond Counsel" means an Opinion of Counsel by a nationally recognized firm experienced in matters relating to obligations of states and their instrumentalities and political subdivisions and which is acceptable to the Bond Bank and the Trustee.

"Opinion of Counsel" means a written opinion of Counsel addressed to the Trustee, for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the

Indenture) be Counsel to the Bond Bank or Counsel to the owners of the Bonds and who is acceptable to the Trustee.

"Outstanding" or "Bonds Outstanding" means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, including Bonds held by the Bond Bank, except:

- (i) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;
- (ii) Bonds deemed paid under the Indenture; and
- (iii) Bonds in lieu of which other Bonds have been authenticated under the Indenture.

"Principal Payment Date" means the maturity date or the mandatory sinking fund redemption date of any Bond.

"Program" means the program for purchasing Qualified Obligations by the Bond Bank pursuant to the Act.

"Program Expenses" means all of the Bond Bank's expenses in carrying out and administering the Program pursuant to this Indenture and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, credit enhancement fees, liquidity facility fees, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Trustee, costs of verifications required under Section 6.12 of the Indenture, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization, life and disability insurance benefits, any other costs permitted under the Act, and rebate payments, if any, which in the Opinion of Bond Counsel are required to be made under the Code in order to preserve or protect the exclusion from gross income for federal tax purposes of interest on the Bonds, all to the extent properly allocable to the Program.

"Purchase Agreement" means the Qualified Entity Purchase Agreement between the Bond Bank and the Qualified Entity, pursuant to which the Qualified Obligations are to be sold to the Bond Bank.

"Qualified Entity" means the Northern Indiana Commuter Transportation District, an entity defined in Indiana Code 5-1.5-1-8.

"Qualified Obligation" means a Security (as that term is defined in the Act), which has been acquired by the Bond Bank pursuant to the Indenture and is a general obligation of a Qualified Entity.

"Qualified Obligation Interest Payment" means that portion of a Qualified Obligation Payment which represents the interest due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Qualified Obligation Payment" means the amounts paid or required to be paid, from time to time, for the principal of and interest on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Qualified Obligation Principal Payment" means that portion of a Qualified Obligation Payment which represents the principal due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

"Qualified Surety Bond" means a surety bond issued by an insurance company rated in the highest rating category by Standard & Poor's and acceptable to the Bond Insurer.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth day of the month next preceding such Interest Payment Date or such other day designated in any Supplemental Indenture authorizing the issuance of a Series of Bonds.

"Redemption Account" means the account by that name created under the Indenture.

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption prior to maturity.

"Refunding Bonds" means Bonds issued pursuant to the Indenture and any Supplemental Indenture.

"Reserve Requirement" means the amount required to be on deposit in the Debt Service Reserve Fund at the time of issuance of a Series of Bonds, which amount equals the least of (i) the maximum annual debt service on all Bonds, (ii) one hundred twenty-five percent (125%) of the average annual debt service on all Bonds, or (iii) ten percent (10%) of the proceeds of all outstanding Bonds, within the meaning of Section 148(d) of the Code, which amount at the time of issuance of the Bonds shall be \$2,599,927.50.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, or any successor thereto.

"Series of Bonds" or "Bonds of a Series" or "Series" or words of similar meaning means any Series of Bonds authorized by the Indenture or by a Supplemental Indenture.

"State" means the State of Indiana.

"Supplemental Indenture" means an indenture supplemental to or amendatory of the Indenture, executed by the Bond Bank and the Trustee in accordance with the Indenture.

"Trustee" means The Bank of New York Trust Company, N.A., or any successor thereto under the Indenture.

"Trust Estate" means the property, rights, and amounts pledged and assigned to the Trustee pursuant to the granting clause of the Indenture.

APPENDIX E-2

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture. Capitalized terms in this summary not defined in this Official Statement shall have the meanings set forth in the Indenture.

Revenues, Funds And Accounts

Creation of Funds and Accounts.

The Indenture establishes the following Funds and Accounts to be held by the Trustee:

2. General Fund-comprised of the following:
 - (a) General Account
 - (b) Purchase Account
 - (c) Redemption Account
 - (d) Bond Issuance Expense Account
 - (e) Capitalized Interest Account
3. Debt Service Reserve Fund.
4. Rebate Fund.

Deposit of Net Proceeds of Bonds, Revenues and Other Receipts.

The Trustee will deposit the proceeds (net of Underwriter's discount) from the sale of the Bonds, as follows:

- (a) Into the Bond Issuance Expense Account an amount sufficient to pay the Costs of Issuance (other than Underwriters' discount to be retained by the Underwriters and the premiums for the Bond Insurance Policy and the Qualified Surety Bond to be paid by the Underwriters directly to the Bond Insurer);
- (b) Into the Capitalized Interest Account, \$110,000 to pay a portion of the interest due on the Bonds on August 1, 2005; and
- (c) Into the Purchase Account of the General Fund, the remainder of the net proceeds, a portion of which will be used in purchasing the Qualified Obligations.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the Bonds and moneys received upon the sale or optional redemption prior to maturity of Qualified Obligations) into the General Account.

The Trustee will deposit the proceeds of any Additional Bonds in the manner provided in the Supplemental Indenture authorizing the issuance thereof.

Operation of Funds and Accounts

General Fund.

1. General Account. The Trustee will make the following payments from the General Account on the specified dates, and, in the event of insufficient funds to make all of such required payments, with the following order of priority:
 - (a) On or before 10:00 A.M. in the city in which the Trustee is located on the business day next preceding each Interest Payment Date, such amount as will be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;
 - (b) As soon as funds become available, and only to the extent necessary, to the Debt Service Reserve Fund, sufficient amounts to assure that the Reserve Requirement is met;
 - (c) As necessary, to the provider of the applicable Qualified Surety Bond, to pay any Debt Service Reserve Fund Reimbursement Obligation in the manner provided in Section 6.09(d) of this Indenture;
 - (d) As necessary, to the Bond Bank, amounts to pay reasonable Program Expenses, but only to the extent contemplated in the most recent Cash Flow Certificate;
 - (e) On or before thirty (30) days after each anniversary of the issuance of the Bonds, to the Rebate Fund, the amounts required to be transferred thereto; and
 - (f) After making such deposits and disbursements, the Trustee will retain such remaining amounts in the General Account to be used from time to time for the purposes set forth in paragraphs (a) through (e) above. Upon final maturity of the Bonds, any money remaining in the General Account which is not needed to pay any of the costs set forth in paragraphs (a) through (e) above in connection with the final maturity of the Bonds will be transferred within thirty (30) days after such final maturity to the Qualified Entity. No moneys shall be transferred, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that, after such transfer, Revenues expected to be received and money expected to be held in the Funds and Accounts will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

2. Redemption Account. The Trustee will deposit in the Redemption Account all money received from the sale or optional mandatory redemption prior to maturity of Qualified Obligations and all other money required to be deposited therein pursuant to the provisions of the Indenture, and will invest such funds pursuant to the Indenture, and will disburse the funds in the Redemption Account as follows:
- (a) On the fifteenth day of each month, to the General Account an amount equal to the principal which would have been payable during the following month if such Qualified Obligations had not been sold or redeemed.
 - (b) On the second business day prior to each Interest Payment Date, if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account such amounts as are not already committed to the redemption of Bonds for which notice of redemption has already been given.
 - (c) After provision has been made for the required transfers to the General Account described in paragraphs (a) and (b) above, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption; (ii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption and not in excess of the applicable redemption price for such Bonds; or (iii) make investments until the payment of the Bonds at their maturity or maturities. The Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase will be made by the Trustee within the period of forty-five (45) days next preceding an interest payment date or a date on which such Bonds are subject to redemption under the provisions of the Indenture.
- If the Trustee is unable to purchase Bonds in accordance with paragraph (c) above, then, subject to restrictions on redemption set forth in the Indenture (see "The Bonds - Optional Redemption"), the Trustee will call for redemption on the next ensuing redemption date such amount of the Bonds of such maturity or maturities as directed by an Authorized Officer as, at the Redemption Price thereof, will exhaust the Redemption Account as nearly as may be possible. Such redemption will be made pursuant to the Indenture. The Trustee will pay the interest accrued on the Bonds so redeemed to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.
3. Purchase Account. On the date of initial delivery of the Bonds, the Trustee will deposit sufficient Bond proceeds to purchase the Qualified Obligations upon the submission of requisitions of the Bond Bank signed by an Authorized Officer

stating that all requirements with respect to such financing set forth in the Indenture have been or will be complied with.

4. Bond Issuance Expense Account. The Trustee will deposit in the Bond Issuance Expense Account the money required to be deposited by the Indenture, will invest such funds pursuant to the Indenture and will disburse the funds held in the Bond Issuance Expense Account upon receipt of acceptable invoices or requisitions, to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs. The Trustee will transfer any funds remaining in the Bond Issuance Expense Account to the General Account on May 1, 2005.

Capitalized Interest Account

The Trustee will deposit \$110,000 in the Capitalized Interest Account for the purpose of paying a portion of the interest due on the Bonds on August 1, 2005.

Debt Service Reserve Fund.

1. The Trustee shall deposit in the Debt Service Reserve Fund all moneys required to be deposited therein pursuant to the Indenture and moneys appropriated by the General Assembly of the State to cause the Debt Service Reserve Fund to be equal to the Reserve Requirement, together with such other moneys as directed by the Bond Bank, shall invest such funds pursuant to the Indenture, and shall disburse the funds held in the Debt Service Reserve Fund solely to the General Account on the second Business Day next preceding each Interest Payment Date if the moneys in the General Account are not sufficient to make the payments of principal of and interest on the Bonds required to be made on such Interest Payment Date after taking into account available funds on deposit in the General Account.
2. The Trustee shall transfer the funds held in the Debt Service Reserve Fund to the General Account for the timely payment of the principal of and interest on the Bonds, but only if moneys in the General Account are insufficient to pay such amount of principal and interest, respectively, due on the Bonds. The Trustee shall draw first on cash or Investment Securities on deposit in the Debt Service Reserve Fund and then on any Qualified Surety Bond, by delivering a demand for payment to each Credit Provider providing such a Qualified Surety Bond at least three Business Days prior to the date on which such funds are required and otherwise in accordance with the terms of each such Qualified Surety Bond.
3. On the Business Day preceding the final Interest Payment Date, the Trustee shall transfer all funds held in the Debt Service Reserve Fund to the General Account for the timely payment of the final principal installment on the Bonds.
4. The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Bonds a Qualified Surety Bond. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement,

moneys in the Debt Service Reserve Fund in excess of that needed for the Debt Service Reserve Fund to be equal to the Reserve Requirement shall be transferred in accordance with the Indenture, subject to the satisfaction of any Debt Service Reserve Fund Reimbursement Obligations from such excess as provided below. If a disbursement is made pursuant to a Qualified Surety Bond, the Bond Bank shall be obligated (but solely from the appropriations, if any, made and available pursuant to the Indenture or if otherwise available from the Trust Estate), within twelve (12) months from the date on which such disbursement was made, to cure such deficiency, either by (i) reinstating the maximum limits of such Qualified Surety Bond or (ii) depositing cash or Investment Securities into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement. The Trustee shall include in the total amount held in the Debt Service Reserve Fund an amount equal to the maximum principal amount which could be drawn by the Trustee under any such Qualified Surety Bond on deposit with the Trustee. In the event a disbursement is made pursuant to a Qualified Surety Bond, the Bond Bank shall issue a reimbursement note to evidence the Debt Service Reserve Fund Reimbursement Obligation to the Credit Provider of such Qualified Surety Bond (the "Reimbursement Note"). Amounts required to be deposited in the Debt Service Reserve Fund shall include any amount required to pay principal and interest owing under a Reimbursement Note for satisfaction of a Debt Service Reserve Fund Reimbursement Obligations for any Qualified Surety Bond. The Trustee is hereby authorized to transfer amounts on deposit in the Debt Service Reserve Fund to pay principal and interest owing under a Reimbursement Note for satisfaction of the Debt Service Reserve Fund Reimbursement Obligations to the Credit Provider of the respective Qualified Surety Bond.

5. If the Debt Service Reserve Fund is equal to the Reserve Requirement, the Trustee shall move the cash or Investment Securities in excess of that needed for the Debt Service Reserve Fund to be equal to the Reserve Requirement from the Debt Service Reserve Fund to the General Account or Redemption Account, as directed by the Bond Bank.

Rebate Fund.

The Trustee shall establish, designate appropriately and maintain, so long as any Bonds are outstanding and are subject to a requirement that arbitrage profits be rebated to the United States of America, a separate fund to be known as the "Rebate Fund." The Trustee shall make information regarding the Bonds and investments hereunder available to the Bond Bank and shall make deposits in and disbursements from the Rebate Fund in accordance with instructions received from the Bond Bank.

Amounts Remaining in Funds.

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture and the fees, charges and expenses of the Trustee will be distributed to the Bond Bank, unless otherwise provided for in the Indenture.

Investment of Funds.

Any money held as a part of any Fund or Account under the Indenture will be invested and reinvested at all times as continuously as reasonably possible by the Trustee in such Investment Securities as may be directed by the Bond Bank; provided, however, in the absence of such direction, the Trustee will select Investment Securities as provided in the Indenture. All such investments will be a part of the Fund or Account from which moneys were used to acquire such investments, and all income and profits on such investments will be deposited in the General Account, except as otherwise provided in the Indenture. The Trustee will not be liable for any investment losses. Moneys in any Funds or Accounts will be invested in Investment Securities with maturity dates (or redemption dates determinable at the option of the owner of the Investment Security) coinciding as nearly as practicable with the times at which moneys in such Funds or Accounts will be required for transfer or disbursement under the Indenture. The Trustee will sell and reduce to cash sufficient amounts of such Investment Securities in a respective Fund or Account as may be necessary to make up a deficiency in any amounts required to be distributed from such Fund or Account.

Bond Bank Covenants

The Bond Bank covenants and agrees that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture, in any and every Bond executed, authenticated and delivered under the Indenture and in all of its related proceedings. The Bond Bank covenants and agrees: that it is duly authorized under the constitution and laws of the State, including particularly the Act, to issue the Bonds, to execute the Indenture and to pledge the Revenues and all other property pledged under the Indenture in the manner and to the extent set forth in the Indenture; that all action on its part for the issuance of the Bonds and the execution and delivery of the Indenture has been duly and effectively taken; and that the Bonds in the hands of their owners are and will be valid and enforceable limited obligations of the Bond Bank according to the terms of the Bonds and the Indenture.

The Bond Bank covenants and agrees that the Trustee may defend its rights to the payment of the Revenues for the benefit of the owners of the Bonds against the claims and demands of all persons whomsoever. The Bond Bank covenants and agrees that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such supplemental indentures and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming unto the Trustee all and singular the rights assigned by the Indenture and the amounts and other property pledged under the Indenture to the payment of the principal of and interest on the Bonds.

In order to provide for the payment of the principal of, premium, if any, and interest on the Bonds and Program Expenses, the Bond Bank will from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of the Indenture and sound banking practices and principles, (i) do all such acts and things as are necessary to receive and collect the Revenues (including enforcement of the prompt collection of all arrears on Qualified Obligations), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect its

rights with respect to or to maintain any insurance on Qualified Obligations and to enforce all terms, covenants and conditions of Qualified Obligations including the collection, custody and prompt application of all escrow payments required by the terms of a Qualified Obligation for the purposes for which they were made. Whenever necessary in order to provide for the payment of the Bonds, the Bond Bank will commence appropriate remedies with respect to any Qualified Obligation which is in default.

With respect to the Qualified Obligations purchased by the Bond Bank, the Bond Bank covenants as follows:

- (a) The Bond Bank will not permit or agree to any material change in the Qualified Obligations (other than one for which consent by the Bond Bank is not required) unless the Bond Bank supplies the Trustee with a Cash Flow Certificate, to the effect that, after such change, Revenues expected to be received in each Fiscal Year and other available money in Funds and Accounts, will at least equal the debt service on all Outstanding Bonds along with Program Expenses, if any, in each such Fiscal Year.
- (b) Only to the extent that such action would not adversely affect the validity of the Qualified Obligations or other obligations of the Qualified Entity, the Bond Bank will pursue the remedy set forth in the Act, including particularly Indiana Code 5-1.5-8-5, for the collection of deficiencies in Qualified Obligation Payments on any Qualified Obligation by collection of such deficiencies out of certain State funds payable but not yet paid to a defaulting Qualified Entity.
- (c) The Bond Bank will also enforce or authorize the enforcement of all remedies available to owners or holders of Qualified Obligations, unless (i) the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that if such remedies are not enforced, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal the debt service due on all Outstanding Bonds in each such Fiscal Year; and (ii) the Trustee determines that failure to enforce such remedies will not adversely affect the interest of the Bondholders in any material way.
- (d) The Bond Bank will not sell or dispose of any Qualified Obligations unless the Bond Bank provides the Trustee with (i) a Cash Flow Certificate, to the effect that after such sale, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, minus any proceeds of such sale to be transferred from any Fund or Account, will at least equal the debt service due on all Outstanding Bonds in each such Fiscal Year and (ii) an Opinion of Bond Counsel stating to the effect that such sale or disposal shall not affect the exclusion of interest on the Bonds from gross income for federal tax purposes of interest. Proceeds of such sales will be invested only in Government Obligations or in Qualified Obligations or disbursed as provided in the Indenture.

Cash Flow Certificates and Verifications

At any time that the provisions of the Indenture require that a Cash Flow Certificate be prepared, such certificate will set forth:

- (a) the Revenues expected to be received on all Qualified Obligations purchased with proceeds of the Bonds or with Revenues expected to be available for the purpose of financing additional Qualified Obligations;
- (b) all other Revenues, including the interest to be earned and other income to be derived from the investment of the Funds and Accounts (other than the Rebate Fund) and the rate or yields used in estimating such amounts;
- (c) all money expected to be in the Funds and Accounts other than the Rebate Fund and with respect to the Debt Service Reserve Fund, only to the extent provided in paragraph (d) below;
- (d) the amount, if any, expected to be withdrawn from the Debt Service Reserve Fund, but only if the amount on deposit in the Debt Service Reserve Fund is expected to at least equal the Reserve Requirement immediately after such withdrawal and such withdrawal is permitted by the Indenture;
- (e) the debt service due on all Bonds expected to be Outstanding during each Fiscal Year; and
- (f) the amount, if any, of Program Expenses expected to be paid from the Revenues.

In making any Cash Flow Certificate, the accountant or firm of accountants may contemplate the payment or redemption of Bonds for the payment or redemption of which amounts have been set aside in the Redemption Account. The issuance of Bonds, the making of transfers from one Fund to another and the deposit of amounts in any Fund from any other source may be contemplated in a Cash Flow Certificate only to the extent that such issuance, deposit or transfer has occurred prior to or will occur substantially simultaneously with the delivery of such Cash Flow Certificate. The accountant or firm of accountants must also supply supporting schedules appropriate to show the sources and applications of funds used, identifying particularly amounts to be transferred between Funds, amounts to be applied to the redemption or payment of Bonds and amounts to be used to provide for Costs of Issuance and capitalized interest, if any, for the respective Series. In the case of each annual Cash Flow Certificate, the amounts of existing Qualified Obligations, existing Investment Securities and existing cash will be the amounts as of the last day of the preceding Fiscal Year. In the case of any other Cash Flow Certificate such amounts will be the amounts as of the last day of the month preceding the month in which the Cash Flow Certificate is delivered but will be adjusted to give effect to scheduled payments of principal of and interest on Qualified Obligations, actual payments or proceeds with respect to Investment Securities and actual expenditures of cash expected by the Bond Bank through the end of the then current month.

The Bond Bank and/or the Trustee from time to time may cause a firm of independent certified public accountants of national standing or other nationally recognized experts to supply

the Bond Bank and the Trustee with such information as the Bond Bank or the Trustee may request in order to determine in a manner reasonably satisfactory to the Bond Bank and the Trustee all matters relating to the sufficiency of projected cash flow receipts and disbursements with respect to the Funds and Accounts to pay the principal of and interest on the Bonds and Program Expenses.

Covenants Concerning Preservation of Tax Exemption

To assure the continuing exclusion of the interest on the Bonds from the gross income of the owners thereof for federal tax purposes under Section 103 of the Code, the Bond Bank covenants and agrees as follows:

- (a) It will not take any action or fail to take any action with respect to the Bonds, that would result in the loss of the exclusion from gross income for federal tax purposes of interest on any of the Bonds pursuant to Section 103 of the Code, nor will the Bond Bank act in any other manner which would adversely affect such exclusion, and it will not make any investment or do any other act or thing during the period that the Bonds are Outstanding which would cause any of the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the particular Series of Bonds.
- (b) These covenants are based solely on current law in effect and in existence on the date of delivery of each Series of Bonds.
- (c) It shall not be an Event of Default under the Indenture if the interest on any of the Bonds is not excludable from gross income for federal tax purposes or otherwise pursuant to any provision of the Code which is not currently in effect and in existence on the date of the issuance of such Bonds.
- (d) In making any determination regarding the covenants, the Bond Bank may rely on an Opinion of Bond Counsel.
- (e) It will rebate any necessary amounts to the United States of America to the extent required by the Code.

Bond Bank's Certification of Debt Service Reserve Deficiency

The Bond Bank covenants that if it is projected that the amount in the Debt Service Reserve Fund will be less than the Reserve Requirement during the next succeeding Fiscal Year, the Chairman shall certify such projected deficiency to the General Assembly of the State on or before December 1 of the Fiscal Year in which the deficiency is projected to occur.

The Bond Bank covenants and agrees that it will immediately take all action required or allowed under Indiana Code 5-1.5-5-4, as amended from time to time, to certify to the General Assembly of the State any deficiency in the Debt Service Reserve Fund being less than the Reserve Requirement, or any amount necessary to restore the Debt Service Reserve Fund to the Reserve Requirement, regardless of whether such deficiency had been projected pursuant to the preceding paragraph.

Accounts and Reports

The Bond Bank will keep proper books of record and accounts in which complete and correct entries will be made of its transactions relating to the Program and the Funds and Accounts established by the Indenture. Such books and all other books and papers of the Bond Bank and all Funds and Accounts will, at all reasonable times, be subject to the inspection of the Trustee and the owners of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding month. The Bond Bank may provide for less frequent statements so long as such statements are supplied no less frequently than quarterly.

Covenant to Monitor Investments

The Bond Bank covenants and agrees to regularly review the investments held by the Trustee in the Funds and Accounts under the Indenture in order to assure that the Revenues derived from such investments are sufficient to provide, together with other anticipated Revenues, for the payment of the debt service on Outstanding Bonds.

Limitation on Additional Bonds

The only additional Bonds that may be issued under the Indenture are Bonds issued solely to purchase Additional Qualified Obligations.

The Indenture creates a continuing pledge and lien to secure the full and final payment of the principal of, redemption premium, if any, and interest on all Bonds and authorizes the issuance of one or more Series of Bonds under separate Supplemental Indentures. The Indenture establishes the requirements for each Supplemental Indenture and provides that no Series of Bonds will be issued under a Supplemental Indenture unless certain conditions are met, including the receipt by the Trustee of a Cash Flow Certificate to the effect that, immediately after the issuance of such Bonds, Revenues in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal the debt service on all Bonds in each such Fiscal Year, including such Bonds. Such certificate will not be required in the case of Refunding Bonds if the debt service in each Fiscal Year on all Bonds after the issuance of such Refunding Bonds will be equal to or less than such debt service for each Fiscal Year on all Bonds Outstanding before the issuance of the Refunding Bonds.

Discharge of Indenture

If payment or provision for payment is made to the Trustee of the principal of, and interest on, the Bonds due and to become due under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to

the Indenture. Outstanding Bonds will be payable only out of the money or securities held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds.

Any Bond or Series of Bonds or portion thereof will be deemed to be paid when (a) payment of the principal of that Bond or Series of Bonds, plus interest to its due date, either (i) has been made in accordance with its terms or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (A) moneys (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized by Governmental Obligations) sufficient to make such payment, (B) Governmental Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestments thereof, as will insure the availability of sufficient money to make such payments, or (C) a combination of such money and Governmental Obligations, and (b) all necessary and proper fees and expenses of the Trustee pertaining to the Bonds.

Defaults and Remedies

Events of Default.

Any of the following events constitutes an "Event of Default" under the Indenture:

- (a) Default in the due and punctual payment of any interest on any Bond;
- (b) Default in the due and punctual payment of the principal of any Bond, whether at stated maturity or on any date fixed for redemption;
- (c) Failure of the Bond Bank to remit any moneys required by the Indenture to the Trustee within the time limits prescribed in the Indenture;
- (d) Default in the performance or observance of any other covenants, agreements or conditions on the part of the Bond Bank contained in the Indenture or in the Bonds and failure to remedy the same within 60 days after receipt of notice, all in accordance with the Indenture;
- (e) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture or in any instrument furnished in compliance with or in reference to the Indenture is found to be false or misleading in any material respect when made and there has been a failure to remedy the same within 60 days after receipt of notice, all in accordance with the Indenture;
- (f) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within 60 days after such filing;
- (g) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether

now or hereafter in effect, or consents to the filing of any petition against it under such law;

- (h) The Bond Bank is generally not paying its debts as such become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;
- (i) The Bond Bank fails to restore the Debt Service Reserve Fund to the Reserve Requirement within sixty (60) days after the end of the Fiscal Year of the Bond Bank during which a deficiency occurs; or
- (j) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Trustee's Rights and Remedies.

No default described under subparagraphs (d) or (e) above will constitute an Event of Default until actual notice of the default by registered or certified mail has been given to the Bond Bank by the Trustee or by the Owners of not less than 25% in aggregate principal amount of all Bonds then Outstanding and the Bond Bank has had 60 days after receipt of the notice to correct such default within the applicable period. If such default is correctable but cannot be corrected within the applicable period, it will not constitute an Event of Default if corrective action is instituted by the Bond Bank within the applicable period and diligently pursued until the default is corrected.

Upon the occurrence of an Event of Default, the Trustee will notify the Bond Insurer and the owners of all Bonds then Outstanding of such Event of Default by registered or certified mail, and upon receiving the express written consent of the Bond Insurer with respect to exercising any such remedies in connection with the Bonds if the Bond Insurance Policy is in full force and effect at such time, will have the following rights and remedies:

- (a) The Trustee may pursue any available remedy at law or in equity or by statute to enforce the payment of the principal of and interest on Outstanding Bonds, including enforcement of any rights of the Bond Bank or the Trustee under the Qualified Obligations;
- (b) The Trustee may by action or suit in equity require the Bond Bank to account as if it were the trustee of an express trust for the owners of the Bonds and may take such action with respect to the Qualified Obligations as the Trustee deems necessary or appropriate and in the best interest of the Owners of Bonds, subject to the terms of those Qualified Obligations;
- (c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Owners of Bonds under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the Revenues, issues, earnings, income,

products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer; provided, however, for so long as the Bond Insurance Policy is in full force and effect, any reorganization or liquidation plan with respect to the Bond Bank must be acceptable to the Bond Insurer, and in the event of any reorganization or liquidation, the Bond Insurer will have the right to vote on behalf of the holders of the Bonds; and

- (d) The Trustee may declare the principal of and accrued interest on all Bonds to be due and payable immediately in accordance with the provisions of the Indenture and the Act, by notice to the Bond Bank and the Attorney General of the State; provided, however, for so long as the Bond Insurance Policy is in full force and effect, the Trustee may, with the consent of the Bond Insurer, and will, at the direction of the Bond Insurer or 25% of the holders of the Bonds with the consent of the Bond Insurer, by written notice to the Bond Bank, the Attorney General of the State and the Bond Insurer, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment will, without further action, become and be immediately due and payable, anything in the Indenture or the Bonds to the contrary notwithstanding.

If an Event of Default has occurred, if requested to do so in writing by the holders of 25% or more in aggregate principal amount of Outstanding Bonds and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise such of the rights, remedies and powers conferred by the Indenture, as the Trustee, being advised by counsel, deems most expedient in the interests of the holders of the Bonds.

Subject to the immediately succeeding paragraph, the Owners of a majority in aggregate principal amount of Bonds then Outstanding will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the appointment of a receiver or any other proceedings under the Indenture.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default and for so long as the Bond Insurance Policy remains in full force and effect, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Bonds or the Trustee for the benefit of the holders of the Bonds under the Indenture, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in the Indenture; and (ii) the right to annul any declaration of acceleration. The Bond Insurer will also be entitled to approve all waivers of Events of Default.

Waivers of Events of Default.

At its discretion, the Trustee may waive any Event of Default and its consequences, and must do so upon the written request of the owners of (i) more than 66 2/3% in aggregate principal amount of all the Bonds then Outstanding in respect of which an Event of Default in

the payment of principal or interest exists or (ii) more than 50% in aggregate principal amount of all Bonds then Outstanding in the case of any other Event of Default. However, there may not be waived (A) any Event of Default in the payment of the principal of any Outstanding Bond at the specified date of maturity or (B) any Event of Default in the payment when due of the interest on any Outstanding Bond unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the owners of Bonds will be restored to their former respective positions and rights under the Indenture. No waiver will extend to any subsequent or other Event of Default or impair any rights consequent thereon. Notwithstanding the foregoing, for so long as the Bond Insurance Policy remains in full force and effect, the Bond Insurer will control all proceedings and the exercise of all rights or remedies with respect to the Bonds.

B. Rights and Remedies of Owners of Bonds.

No owner of any Bond will have any right to institute any proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the Indenture, unless (i) an Event of Default has occurred, (ii) the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name, (iii) such owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (iv) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal and ratable benefit of the owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds. Notwithstanding the foregoing, for so long as the Bond Insurance Policy remains in full force and effect, the Bond Insurer will control all proceedings and the exercise of all rights or remedies with respect to the Bonds.

Nonpresentment of Bonds

If any Bond issued under the Indenture is not presented for payment when the principal becomes due, either at maturity, or at the date fixed for redemption, or as set forth in any Supplemental Indenture regarding deemed tenders or redemptions or otherwise, and if funds sufficient to pay such Bond have been made available to the Trustee for the benefit of the owner thereof, all liability of the Bond Bank to the owner thereof for the payment of such Bond will forthwith cease, terminate and be completely discharged, and thereupon it will be the duty of the Trustee to hold such funds uninvested for five (5) years, for the benefit of the owner of such Bond, without liability for interest thereon to such owner, who will thereafter be restricted

exclusively to such funds, for any claim of whatever nature on its part under the Indenture or on, or with respect to, such Bond.

Any money so deposited with and held by the Trustee in trust for the payment of the principal of and interest on the Bonds and remaining unclaimed by any Bondholder for five (5) years after the due date of such principal or interest, will be applied by the Trustee in accordance with the Unclaimed Property Act, Indiana Code 32-34-1, as amended from time to time. Prior to the transfer of any such moneys to the Attorney General of the State in accordance with the Unclaimed Property Act, the Trustee will conduct searches in an effort to locate lost Bondholders using reasonable care to ascertain the correct addresses of all lost Bondholders in accordance with the rules governing registered transfer agents promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, but only if and so long as the Trustee is a registered transfer agent under those rules. Upon the transfer of such moneys to the Attorney General of the State in accordance with the Unclaimed Property Act, the Bond Bank and the Trustee will have no further responsibility or liability with respect to such moneys, and the Bondholders entitled to such principal or interest will look only to the State for payment, to the extent provided by law, and then only to the extent of the amounts so received by the State, without any interest thereon.

Other Obligations Payable from Revenues

The Bond Bank will grant no liens or encumbrances on or security interests in the Trust Estate (other than those created by the Indenture), and, except for the Bonds and any Refunding Bonds, will issue no bonds or other evidences of indebtedness payable from the Trust Estate.

Limitations on Obligations of Bond Bank

The Bonds, together with interest thereon, are limited obligations of the Bond Bank payable solely from the Trust Estate and will be a valid claim of the respective owners thereof only against the Trust Estate which is assigned and pledged for the equal and ratable payment of such Bonds and will be used for no other purpose than the payment of the Bonds, except as may be otherwise expressly authorized in the Indenture. The Bonds, and the interest payable thereon, will not constitute a debt or liability of the State, or of any political subdivision thereof, including the Qualified Entity, under the constitution or the statutes of the State or a pledge of the faith and credit of the taxing power of the State or any political subdivision thereof, including the Qualified Entity, but will be payable solely from the Trust Estate pledged therefor in accordance with the Indenture. The Bond Bank has no taxing power. The issuance of the Bonds under the provisions of the Act does not directly, indirectly or contingently, obligate the State or any political subdivision thereof, including the Qualified Entity, to levy any form of taxation for the payment thereof or to make any appropriation for their payment. Neither the State nor any agent, attorney, member or employee of the State, or any political subdivision thereof, including the Qualified Entity, or of the Bond Bank, will in any event be liable for the payment of the principal of, and premium, if any, or interest on the Bonds or damages, if any, for the nonperformance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Bond Bank. No breach by the Bond Bank of any such pledge, mortgage, obligation or agreement may impose any liability, pecuniary or otherwise, upon the State, or any political subdivision thereof, including the Qualified Entity, or any agent, member, attorney or employee

of the State, of any political subdivision thereof, including the Qualified Entity, or of the Bond Bank, or any charge upon the general credit of the State, or a charge against the taxing power of the State or any political subdivision thereof, including the Qualified Entity.

Immunity of Officers and Directors

No recourse will be had for the payment of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained against any past, present or future officer, member, director, agent or employee of the Bond Bank, or any officer, member, director, trustee, agent or employee of any successor entities thereto, as such, either directly or through the Bond Bank, or any successor entities, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, members, directors, trustees, agents, or employees as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Indenture and issuance of such Bonds.

Supplemental Indentures

The Bond Bank and the Trustee may, with notice to the Bond Insurer for so long as the Bond Insurance Policy remains in full force and effect, but, without the consent of, or notice to, any of the Bondholders, enter into any indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, does not materially and adversely affect the interest of the owners of Outstanding Bonds and does not require unanimous consent of the Bondholders pursuant to the Indenture;
- (c) To subject to the Indenture additional Revenues, properties or collateral;
- (d) To modify, amend or supplement the Indenture or any indenture supplemental thereto in order to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;
- (e) To evidence the appointment of a separate or co-trustee or the succession of a new Trustee under the Indenture or the succession of a new registrar and/or paying agent;

- (f) To provide for the issuance of each Series of Bonds, other than the Series 2004 D Bonds;
- (g) To provide for the refunding of all or a portion of the Bonds issued under the Indenture; and
- (h) To amend the Indenture to permit the Bond Bank to comply with any future federal tax law or any covenants contained in any Supplemental Indenture with respect to compliance with future federal tax law.
- (i) To modify, amend or supplement the Indenture in any manner that does not adversely affect the owners of the Bonds.

With the exception of Supplemental Indentures for the purposes described in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) have the right, from time to time, to consent to and approve the execution by the Bond Bank and the Trustee of any other indenture or indentures supplemental thereto as are deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture, but only with the express written consent of the Bond Insurer for so long as the Bond Insurance Policy remains in full force and effect. However, no Supplemental Indenture may permit or be construed as permitting, without the consent of the owners of all then Outstanding Bonds and the Bond Insurer for so long as the Bond Insurance Policy remains in full force and effect, (i) an extension of the maturity dates of the principal of or the interest or redemption date on, any Bonds, (ii) a reduction in the principal amount of any Bond or a change in the redemption premium or the rate of interest on any Bond, (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture, (v) the creation of any lien securing any Bonds, other than a lien ratably securing all of the Bonds at any time Outstanding, (vi) a reduction in the Reserve Requirement, or (vii) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

Trustee

By executing the Indenture, the Trustee accepts the trusts and duties imposed upon it by the Indenture, and agrees to perform such trusts and duties with the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs, but only upon and subject to the express terms and conditions of the Indenture.

The Trustee covenants and agrees to retain or cause its agent to retain possession of each Qualified Obligation and a copy of the transcript or documents related thereto and release them only in accordance with the provisions of the Indenture. The Bond Bank and the Trustee covenant and agree that all books and documents in their possession relating to the Qualified

Obligations will at all times be open to inspection by such accountants or other agencies or persons as the Bond Bank or the Trustee may from time to time designate.

The Trustee and any successor Trustee may at any time resign from the trusts created by the Indenture by giving 30 days' written notice by registered or certified mail to the Bond Bank, the owner of each Bond as shown by the list of Bondholders required by the Indenture to be kept at the office of the Trustee, and, for so long as the Bond Insurance Policy remains in full force and effect, the Bond Insurer. Such resignation will take effect upon the appointment of a successor Trustee and acceptance of such appointment by the successor Trustee. Notwithstanding any other provision of the Indenture and for so long as the Bond Insurance Policy remains in full force and effect, no resignation or termination of the Trustee will take effect until a successor Trustee, acceptable to the Bond Insurer, is appointed.

The Trustee may be removed at any time with or without cause by instrument or concurrent instruments in writing delivered to the Trustee and to the Bond Bank and signed by the owners of a majority in aggregate principal amount of all Bonds then Outstanding or their attorneys-in-fact duly authorized, but only with the express written consent of the Bond Insurer for so long as the Bond Insurance Policy remains in full force and effect. Notice of the removal of the Trustee will be given as described in the paragraph above. So long as no Event of Default, or an event which with the passage of time would become an Event of Default, has occurred and is continuing, the Trustee may be removed at any time for cause by resolution of the Bond Bank filed with the Trustee. For so long as the Bond Insurance Policy remains in full force and effect, the Trustee may be removed at any time, at the request of the Bond Insurer, for any breach of the trust set forth in the Indenture. Notwithstanding any other provision of the Indenture and for so long as the Bond Insurance Policy remains in full force and effect, no removal or termination of the Trustee will take effect until a successor Trustee, acceptable to the Bond Insurer, is appointed.

If the Trustee resigns or is removed, or is dissolved, or is in course of dissolution or liquidation, or otherwise becomes incapable of acting under the Indenture, or in case it is taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the owners of a majority in aggregate principal amount of all Bonds then Outstanding under the Indenture by an instrument or concurrent instruments in writing signed by such owners, or by their attorneys-in-fact duly authorized, a copy of which will be delivered personally or sent by registered mail to the Bond Bank. Nevertheless, in case of such vacancy, the Bond Bank by resolution may appoint a temporary Trustee to fill such vacancy. Within ninety days after such appointment, the Bondholders may appoint a successor Trustee, and any such temporary Trustee so appointed by the Bond Bank will become the successor Trustee if no appointment is made by the Bondholders within such period, but in the event an appointment is made by the Bondholders, such temporary Trustee will immediately and without further act be superseded by any Trustee so appointed by such Bondholders. Notice of the appointment of a temporary or successor Trustee will be given in the same manner provided above with respect to the resignation of a Trustee. Every such Trustee so appointed will be a trust company or bank having its principal place of business in the State, will be duly authorized to exercise trust powers, will be subject to examination by federal or state authority, will have a reported capital and surplus of not less than \$75,000,000, and, for so long as the Bond Insurance

Policy remains in full force and effect, will be acceptable to the Bond Insurer, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

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APPENDIX E-3

SUMMARY AND EXCERPTS OF THE QUALIFIED ENTITY RESOLUTION

The following is a summary and excerpts of certain sections of a Resolution of the Board of Trustees of the Northern Indiana Commuter Transportation District Authorizing the Issuance of Revenue Bonds of the District, referred to in this Official Statement as the Qualified Entity Resolution. Neither the summary nor the excerpts contained herein purport to comprehensively describe the Qualified Entity Resolution.

On September 17, 2004, the Board of Trustees (the "Qualified Entity Board") of the Northern Indiana Commuter Transportation District (the "District") adopted a resolution (the "Qualified Entity Resolution") authorizing the issuance and sale of negotiable bonds of the District in an aggregate principal amount not to exceed \$32,000,000 (the "Qualified Obligations") under Indiana Code 8-5-15, as amended from time to time (the "Act"). Pursuant to the terms of the Qualified Entity Resolution, the Qualified Obligations shall constitute an obligation of the District payable solely from a tax levied upon the indefinite situs distributable property of railroad car companies (the "Situs Revenues") and from any amounts distributed to the District from the Electric Rail Service Fund established by Indiana Code 8-3-1.5-20.6 (the "Electric Rail Service Fund Revenues," together with the Situs Revenues, the "Qualified Entity Revenues"). The proceeds of the Qualified Obligations will be used to provide for improvements and additions to the fixed assets of the District, including without limitation signalization and traffic management improvements, the installation of fiber-optic network, and reconstruction of the catenary system and to pay costs related thereto (the "Project"). The Qualified Obligations will rank on parity with the District's Limited Obligation Revenue Notes, Series 2002, outstanding in the aggregate principal amount of \$1,600,000 (the "Prior Notes") as to the pledge of Situs Revenues only.

The following are excerpts from certain sections of the Qualified Entity Resolution.

Section 4 of the Qualified Entity Resolution

There is created and established pursuant to the Act a separate and distinct fund called the Commuter Transportation System Bond Fund (the "Bond Fund") into which shall be deposited the Qualified Entity Revenues. The Bond Fund shall consist of three (3) accounts: (i) the Principal and Interest Account, (ii) the Reserve Account, and the (iii) the Excess Account. The District shall deposit into the Principal and Interest Account from time to time a sufficient amount of the Qualified Entity Revenues to pay the principal of and interest on all outstanding bonds issued by the District pursuant to the Act and coming due in the next twelve (12) months (such deposit requirement, when coupled with the Qualified Entity Reserve Requirement (defined below) referred to herein as the "Bond Fund Requirement" as set forth in the Act).

As of the date of the issuance of the Qualified Obligations, the District shall deposit into the Reserve Account a sufficient amount of Qualified Entity Revenues then available to the District to provide a reserve for the payment of principal of and interest on all bonds issued by the District pursuant to the Act which reserve shall be equal to the least of (i) the maximum annual debt service on all outstanding bonds of the District issued pursuant to the Act, (ii) one

hundred twenty-five percent (125%) of the average annual debt service on all outstanding bonds of the District issued pursuant to the Act, or (iii) ten percent (10%) of the proceeds of all outstanding bonds of the District issued pursuant to the Act; provided, however, that such reserve shall not in any event exceed an amount equal to two (2) times the maximum annual amount of principal and interest coming due on any bonds issued by the District pursuant to the Act in any subsequent year by reason of stated maturities, scheduled mandatory prepayments or by operation of any mandatory prepayments or by operation of any mandatory sinking fund (the "Qualified Entity Reserve Requirement"). Any deficiencies in credits to the Reserve Account shall be promptly made up from the next available Qualified Entity Revenues remaining after credits into the Principal and Interest Account. In the event moneys in the Reserve Account are transferred to the Principal and Interest Account to pay principal and interest on bonds, then such depletion of the balance in the Reserve Account shall be made up from the next available Qualified Entity Revenues after the credits into the Principal and Interest Account hereinbefore provided for.

After making any required deposits into the Principal and Interest Account and the Reserve Account to satisfy the Bond Fund Requirement, any remaining Qualified Entity Revenues received by the District shall be deposited into the Excess Account. Amounts on deposit in the Excess Account may be expended by the Qualified Entity Board for any purpose authorized by the Act; provided, however, that the portion of the Qualified Entity Revenues constituting Situs Revenues may only be used for purposes of the Principal and Interest Account and the Reserve Account as required by Indiana Code 6-1.1-8-35. Moneys in the Excess Account shall be transferred to the Principal and Interest Account if necessary to prevent a default in the payment of principal and interest on the then outstanding bonds payable from the Bond Fund or to the Reserve Account if necessary to eliminate any deficiencies in credits to or minimum balances in the Reserve Account.

Section 5 of the Qualified Entity Resolution

(a) The District reserves the right to authorize and issue additional Qualified Obligations or bonds ("Parity Bonds"), payable out of the Qualified Entity Revenues, ranking on a parity with the Qualified Obligations authorized by the Qualified Entity Resolution and payable ratably from the Qualified Entity Revenues for the purpose of raising money for future Railroad Projects, as such term is defined by the Act. If any Parity Bonds are issued pursuant to the Qualified Entity Resolution, the term "Qualified Obligations" shall, unless the context otherwise requires, be deemed to refer to the Qualified Obligation or Qualified Obligations authorized to be issued by the Qualified Entity Resolution and such Parity Bonds. The authorization and issuance of Parity Bonds shall be subject to the following conditions precedent:

(i) All interest and principal payments with respect to all obligations payable from the Qualified Entity Revenues shall be current to date with no payment in arrears.

(ii) The balance in the Bond Fund shall equal the Bond Fund Requirement.

(iii) The District shall have received a certificate prepared by an independent certified public accountant or an independent financial consultant ("Certifier") certifying that the Qualified Entity Revenues estimated to be received in each succeeding year, adjusted as provided below, is estimated to be equal to at least 125% of the principal and interest requirements of all obligations of the District payable from Qualified Entity Revenues for each respective year during the term of the Qualified Obligations with respect to the Qualified Obligations and the Parity Bonds. In estimating that portion of the Revenues which are Situs Revenues expected to be received in any future year, the Certifier shall base his calculation on assessed valuation actually assessed or to be assessed as of the assessment date immediately preceding the issuance of the Parity Bonds.

The District shall approve and confirm the findings and estimates set forth in the above described certificate in any supplemental resolution authorizing the issuance of the Parity Bonds.

(b) Except as otherwise provided in Section 5 of the Qualified Entity Resolution, so long as any of the Qualified Obligations are outstanding, no additional Qualified Obligations or other obligations pledging any portion of the Qualified Entity Revenues shall be authorized, executed or issued by the District except such as shall be made subordinate and junior in all respects to the Qualified Obligations, unless all of the Qualified Obligations are redeemed and retired coincidentally with the delivery of such additional bonds or other obligations, or, as provided in Section 13 of the Qualified Entity Resolution, funds sufficient to accomplish such redemption are available and set aside for that purpose at the time of issuance of such additional bonds.

Section 11 of the Qualified Entity Resolution

In order to preserve the exclusion from gross income of interest on the Qualified Obligations under federal law and as an inducement to the purchasers of the Qualified Obligations, the District represents, covenants and agrees that:

(a) No person or entity or any combination thereof, other than the District, will use proceeds of the Qualified Obligation or property financed by said proceeds other than as a member of the general public. No person or entity or any combination thereof, other than the District will own property financed by Qualified Obligation proceeds or will have actual or beneficial use of such property pursuant to a lease, a management or incentive payment contract, an arrangement such as a take-or-pay or other type of output contract or any other type of arrangement that differentiates that person's or entity's use of such property from the use by the public at large of such property except as the same may be permitted by federal law;

(b) No Qualified Obligation proceeds will be lent to any entity or person. No Qualified Obligation proceeds will be transferred directly, or indirectly transferred or deemed transferred to a person other than a governmental unit in a fashion that would in substance constitute a loan of said Qualified Obligation proceeds;

(c) The District will not take any action or fail to take any action with respect to, the Qualified Obligations that would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Qualified Obligations pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended and as in effect on the date of delivery of the Qualified Obligations (the "Code"), and the District will not act in any manner which would adversely affect such exclusion. The District further covenants that it will not make any investment or do any other act or thing during the period that any Qualified Obligation is outstanding under the Qualified Entity Resolution which would cause any Qualified Obligation to be an "arbitrage bond" within the meaning of Section 148 of the Code and the regulations applicable thereto as in effect on the date of delivery of the Qualified Obligations. The District shall comply with the arbitrage rebate requirements under Section 148 of the Code to the extent applicable; and

(d) All officers, members, employees and agents of the District are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Qualified Obligations are issued and to make and enter into covenants on behalf of the District evidencing the District's recognition of and compliance with the covenants and commitments made herein. In particular and without limiting the foregoing, any and all appropriate officers, members, employees and agents of the District, are authorized to certify and/or enter into covenants for the District regarding the facts and circumstances and reasonable expectations of the District on the date the Qualified Obligations are issued and the representations, covenants and commitments made by the District in the Qualified Entity Resolution regarding the amount and use of the proceeds of the Qualified Obligations.

Section 12 of the Qualified Entity Resolution

Notwithstanding any other provisions of the Qualified Entity Resolution, the covenants and authorizations contained in the Qualified Entity Resolution (the "Tax Sections") which are designed to preserve the exclusion of interest on the Qualified Obligations from gross income under federal law (the "Tax Exemption") need not be complied with if the District receives an opinion of bond counsel that any Tax Section is unnecessary to preserve the Tax Exemption.

Section 17 of the Qualified Entity Resolution

The District may, from time to time and at any time, without the consent of, or notice to, any of the owners of the Qualified Obligations, adopt resolutions supplemental to the Qualified Entity Resolution (which supplemental resolutions shall thereafter form a part of the Qualified Entity Resolution) for any one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the Qualified Entity Resolution or in any supplemental resolution;

(b) To grant to or confer upon the owners of the Qualified Obligations any additional benefits, rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the owners of the Qualified Obligations, or to make any

change which, in the judgment of the District, is not to the prejudice of the owners of the Qualified Obligations;

(c) To modify, amend or supplement the Qualified Entity Resolution to permit the qualification of the Qualified Obligations for sale under the securities laws of the United States of America or of any of the states of the United States of America or to obtain or maintain bond insurance with respect to payments of principal of and interest on the Qualified Obligations;

(d) To provide for the refunding or advance refunding of the Qualified Obligations;

(e) To procure a rating on the Qualified Obligations from a nationally recognized securities rating agency designated in such supplemental resolution, if such supplemental resolution will not adversely affect the owners of the Qualified Obligations;

(f) Any other purpose which in the judgment of the District does not adversely affect the interests of the owners of the Qualified Obligations; or

(g) To provide for the issuance of bonds which are on a parity with the Qualified Obligations or junior thereto provided that the provision of the Qualified Entity Resolution are complied with in connection with such issuance.

Section 18 of the Qualified Entity Resolution

The Qualified Entity Resolution and the rights and obligations of the District and the owners of the Qualified Obligations may be modified or amended at any time by supplemental resolutions adopted by the District with the consent of the owners of the Qualified Obligations holding at least sixty percent (60%) in aggregate principal amount of the outstanding Qualified Obligations (exclusive of Qualified Obligations, if any, owned by the District); provided, however, that no such modification or amendment shall, without the express consent of the owners of the Bonds affected, reduce the principal amount of any Qualified Obligation, reduce the interest rate or premium payable thereon, advance the earliest redemption date, extend its maturity or the times for paying interest thereon, permit a privilege or priority of any Qualified Obligation or Qualified Obligations over any other Qualified Obligation or Qualified Obligations, create a lien securing any Qualified Obligations other than a lien ratably securing all of the bonds outstanding, or change the monetary medium in which principal and interest are payable, nor shall any such modification or amendment reduce the percentage of consent required for amendment or modification.

Any act done pursuant to a modification or amendment so consented to shall be binding upon all the owners of the Qualified Obligations and shall not be deemed an infringement of any of the provisions of the Qualified Entity Resolution or of the Act, and may be done and performed as fully and freely as if expressly permitted by the terms of the Qualified Entity Resolution, and after such consent relating to such specified matters has been given, no owner shall have any right or interest to object to such action or in any manner to question the propriety thereof or to enjoin or restrain the District or any officer thereof from taking any action pursuant thereto.

If the District shall desire to obtain any such consent, it shall cause the Registrar to mail a notice, postage prepaid, to the respective owners of the Qualified Obligations at their addresses appearing on the registration books held by the Registrar. Such notice shall briefly set forth the nature of the proposed supplemental resolution and shall state that a copy thereof is on file at the office of the Registrar for inspection by all owners of the Qualified Obligations. The Registrar shall not, however, be subject to any liability to any owners of the Qualified Obligations by reason of its failure to mail the notice described in Section 18 of the Qualified Entity Resolution, and any such failure shall not affect the validity of such supplemental resolution when consented to and approved as provided in Section 18 of the Qualified Entity Resolution.

Whenever at any time within one year after the date of the mailing of such notice, the District shall receive an instrument or instruments purporting to be executed by the owners of the Qualified Obligations of not less than sixty percent (60%) in aggregate principal amount of the Qualified Obligations then outstanding (exclusive of Qualified Obligations, if any, owned by the District), which instrument or instruments shall refer to the proposed supplemental resolution described in such notice, and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice as on file with the Registrar, thereupon, but not otherwise, the District may adopt such supplemental resolution in substantially such form, without liability or responsibility to any owners of the Qualified Obligations, whether or not such owner shall have consented thereto.

Upon the adoption of any supplemental resolution pursuant to the provisions of Section 18 of the Qualified Entity Resolution, the Qualified Entity Resolution shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Qualified Entity Resolution shall thereafter be determined, exercised and enforced under the Qualified Entity Resolution, subject in all respects to such modifications and amendments.

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